United States Court of Appeals

for the Second Circuit

EXHIBITS

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75-1004

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Pages

United States Court of Appeals

FOR THE SECOND CIRCUIT

Docket No. 75-1004

UNITED STATES OF AMERICA,

Appellee,

v.

ANTHONY M. NATELLI, and
JOSEPH SCANSAROLI,

Defendants-Appellants.

EXHIBIT VOLUME

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UNITED STATES COURT OF APPEALS
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A. DANIEL FUSARO, CLERK
SECOND CIRCUIT

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E 1

GOVERNMENT'S EXHIBIT 1

TENTATIVE PROFIT AND LOSS STATEMENT (8/31/68)

	9/1/67 - 8/31/68	9/1/67 - 8/31/68	8/31 - 8/31/68
Revenue	1,150,404	914,374	240,030
Costs: Direct	570,826		
Mfg. overhead	419,770		
	990,596		200,465
Gross profit	159,808	27,148	(40,435)
Gen. & admin. expenses	432,402	230,194	102,240
Net profit (loss)	(272,594)	(203,046)	(142,675)
Wedgefield adjustment booked in 4th quarter		155,601	155,601
Net profit (loss)	(272,594)	(47,445)	12,926
Deductions:			
Expense accounts	(40,464)		
Employee stock options	(6,275)		
C. W. Randall salary	(12,000)		
R. Douglas Randall consulting fee	(10,000)		
Commissions, Retail Div.	(6,838)		
Interest Income	4,210		
Miscellaneous Income	4,560		
Collection Charges, net	8,000		
Transaction adj. Parent's Books	40,000		
Pension Income	2,166		
	(15,163)		
	(287,757)		
Income tax benefit	34,000		
	(253,757)		
Net earnings (loss)	(253,757)		

EXCERPTS FROM GOVERNMENT'S EXHIBIT 3

SPECIAL SALES BINDER (8/31/68; PP. 1910-1986

W.P.N.	SP-1
ACCOUNTANT	[illegible]
DATE	10-22-68

The standard type of contract entered into by H&HC with their clients for painting, sandblasting etc involves very little direct cost other than commissions to the account executive. The account executive is personally responsible for obtaining contracts for the company. He may afford free use to trucks and tractors a potential client before a contract is signed. The company business is secured and many contracts are signed just prior to the starting of painting work. As a result a problem arises as to when the records or orders should be recorded to properly reflect gross income during the year. If work recorded properly, the financial statements would not properly reflect the operations of the company.

There are apparently three dates when gross sales may be recorded:

1 Date work is performed

2 Date contract is signed

3 Date company orally agrees to enter payment

The date the work is performed is not the best time to record sales because most of the direct and indirect costs (or bulk) have been incurred some months prior to the date. Also the work is often [illegible] a small portion the year until the work is

1911

E 3

Excerpts from Government's Exhibit 3

W P No	SP-2
ACCOUNTANT	JS
DATE	10-26-66

some months may show very little gross sales while
month, under quarterly statements, many less.

The date of the contract is not a good time to record sales because many of the clients do not cause contracts. Because of the complexities of corporate structure of large corporations the board, department etc, it takes many months to have a contract signed. These reasons in addition to the reasons given in the preceding paragraph make it necessary to find an alternate method of recording income.

The only other possible way of recording income is to record sales when the customer agrees orally to utilize a program. Under this method other controls should be used because there is no legal binding contract. Paper files must be maintained on both the company and the account structure in addition to statistical data on all customers. If these files are maintained, then the procedure of following it monthly, would probably best reflect Company operations. This can readily be done in the summer when school is out. During this time of the year, emphasis is placed on the school programs. However there may be contracts signed which can be recorded. As a result net income for the quarter will be low. However, if company

1912

E 4

Excerpts from Government's Exhibit 3

W P No	SP 3
ACCOUNTANT	K
DATE	10-26-68

agree with the accrual system to write off programs, then the cost would be matched at that date.

The only other way to match cost with revenue and (or) workload there is no basis to base revenue of a program has been completed. To defer workload would be utterly absurd & not supportable.

This is the first full year (8-31-68) in which NASA or any of the type of ventures on this scale. NASA has been using the suggested method for the first three quarters of the year and there was no way to reverse the method now. It would be the last year of the use the 2nd or 3rd year of publication. We would have proper data and a lot easier to work with. However, this is the first year and we have little alternative but to follow the suggested method.

Also, based on the going accrual concept, it would appear that we should use the estimate as outlined above. If we don't use them we would probably show a substantial loss for the year and many stockholders would sell their stock based on one year's

Excerpts from Government's Exhibit 3

Material Student Problem #3

Method of Financing Growth
S 21-68

W P NO. 4P 3-1
ACCOUNTANT [illegible]
DATE 10-26-67

without utilizing the monetary portion of the effect. Subsequently as future growth reflects, the company would show a large profit as there are over 1½ million dollars of commitments outstanding. Many of the stockholders will probably wish they had held on to the stock and we could be interested for not using proper accounting principles.

TM 68 NSMC

Excerpts from Government's Exhibit 3

NSMC

Memo re change in accounting method

8/31/68

At 8/31/68 client booked gross profit on contract in progress. There were fixed fee contracts which increased significantly during yr 8/31/68. There were some of these contracts in 8/31/67 years. However, the method of recognizing income was to accrue income according to contract (fixed contracts) and expense costs as incurred for book and tax. The 8/31/68 book change does not recognized for tax purposes as this was a change in accounting method. (In addition to change in timing, income on contracts in progress is basically project. While there are "real" contracts & eg. contracts, which is also a change from the prior yr.)

Client discussed with C.P. ... to ... in the ... of the ... method of reporting income ... 8/31/69

1915

National Student Marketing Corporation

Contracts in Progress
8-31-68

W. P. No.	SP-4
ACCOUNTANT	
DATE	10-30-68

Client	Gross Revenue	Transactional Costs: Account Executive	Campus Reps	Other Cost	TOTAL			Net to be Recognized	% of Completion
✓ Factors Auto Leasing (Survey basis)	5000			3000				2000	100
Export 5000 posters	8600	1690	1350					3738	70
Factors Industries	4850	100						2106	130
"	1875			1875				—	
"	361			253				108	100
"	4350			4350				—	100
Export	7000	1400		4600				2635	85
Factors Auto Leasing (Survey basis for 60 auto dealers)	52250	8000		2250				22000	100
Factors Industries 12000 posters	13440	3910	3960					6570	100
Factors Industries 12000 posters	12440	3910	3960					5570	100
✓ Factors Industries	6450	300		3450				2700	100
Weider 3000 posters	3776	965	660	525				1261	80
✓ Hancock	8250	10480	—	14425 ✓				24970	90 %
✓ Graham Enright	5625	10000		16312				24313	90 %
Charlotte Pontiac	3000	1000		10875 ✓				11152	85 %
✓ Export	7000	14000		23125 ✓				22800	85 %
Johnson	5250	10450		14725 ✓				24970	90
Chatham	5250	10450		14125 ✓				24970	90
Compton	5250	10450		18920 ✓				24970	90
✱ Pace - portion not booked	14492	5000						11492	100
✱ Gant	14500	5000		5000				9500	100
✱ Commerce Acceptance	17487	5000		5250				10487	100
✱ Lectron	24000	17660		31660 ✓				21000	100
	[illegible]	[illegible]	[illegible]	[illegible]	268303			622647	
						Revenue	1740950		
						Sales Cost of Sales	1068303	1740950	
						Avg Value		1068303	

✓ - Cost completed based on [illegible]
✓ - Exhibit to [illegible]
✓ - Talk to SD agency reference for [illegible]
✱ - Signed copy of contract
✓ - Received letter of confirmation

1916

E

Excerpts from Government's Exhibit 3

Excerpts from Government's Exhibit 3

	Bonus	Cont	Int
Lestamé	70,200	49,200	21,000
	567,812	414812	153,000
C/AIRO1	91,250	65,000	26,250
Clenbrough	19,500	10,000	9,500
Barr			
	748,762	539,012	209,750
	70200	49 200	21 000
	678,562	489,812	188,750

1917

National Student Marketing Corp
Contracts in Progress

W. P. No.	SP-4-1
ACCOUNTANT	JS
DATE	10-30-68

10-31-68

	Client		Home Personnel	Account Executive	Campus Reps	other	Total			Est. % of Completion	
/	Clairol	SP-4-3	60000	6500	6000	195000			153000	x	85%
/	Chemicals Foods	SP-4-3	100000	25000	15000	29000			26250		75
	Stoffer Cos		5000	200					2700		10
/	Singles Corp		112000	12240		68000			15680		95
/	Water devices Inc		5000			3700			1500		100
/	Shick		30000	5000					25000		100
	Bayer Formulations		7500	1000					5550		90
	Carnation		28000	5970	4000	6000			8948		75
SP	Berger Hand Cream		52000	18000		12000			34650		85
SP			125600	6276		28650			70528		85
SP			27000	5000	5000	6000			10200		85
	Sporter - College		54000	5000		18120			26588		85
	Corega		65000	6000		18120			26588		85
	PW		27000	5000	5000	6000			5950		85
SP	Yard Care Corp		6000	1200		1800			2670		100
SP	A J Parr		5000	1200		1800			2682		100
	American Cookware		20000	4000	5000				6248		75

C - Client signed contract
L - Client signed letter of commitment

1968

E 9

Excerpts from Government's Exhibit 3

E 10

Excerpts from Government's Exhibit 3

nsmc MEMORANDUM

Oct. 18 ,1968

Clients Name FABERGE
Clients Address

Contracting Officer LYONS
Advertising Agency

Description of Program H.S. & College Girls 2,500 M pieces

Program to take place Spring '69

NSMC Gross Revenue $ 56,250.1

NSMC Costs

Printing	List Postage Envelope Mailing House	$	
Art and Layout		$	
Product Cost		$	
Travel		$	
Other (explain)		$ 18,125	
	Comm.	$ 10,680	$ 28,805

NSMC Net Profit 27,745

Clients Commitment:

X Verbal

Projection is 85 % complete

_____ Letter of Commitment (attached)

_____ Contract Signed

Signed BERNIE GANIS

1921

E 11

Excerpts from Government's Exhibit 3

NSMC MEMORANDUM

OCT. 18 ,1968

Clients Name DUPONT
Clients Address

Contracting Officer LEWIS
Advertising Agency

Description of Program H.S. & COLLEGE GIRLS COLLAGE 2,500 M + SALES + FULFILLMENT MAIL DIST

Program to take place SPRING '69

NSMC Gross Revenue $ 70,000.-

NSMC Costs

Printing	OTHER (SOR. & FULFILL) 10,000 EST	
Art and Layout	LIST	$
Product Cost	POSTAGE	$
Travel	ENVELOPE	$
Other (explain)	MAILING HOUSE	$ 18,125
		$ 4,000
		$ 42,125.-

NSMC Net Profit 27,875.-

Clients Commitment:

X Verbal

Projection is 80% complete

_____ Letter of Commitment (attached)

_____ Contract Signed

Signed BERNIE GANS

-32-

E 12

Excerpts from Government's Exhibit 3

nsmc MEMORANDUM

Oct. 18 ,1968

Clients Name Chesebord Ponds
Clients Address

Contracting Officer Antonowsky
Advertising Agency

Description of Program H.S. Girls Collage 1,500 ± Pupils

Program to take place Spring 69

NSMC Gross Revenue $ 30,000.-

NSMC Costs

Printing	$	
Art and Layout	$	
Product Cost	$	
Travel	$	
Other (explain)	$ 10,275	
Commission	$ 6,000	$ 16,875.-

NSMC Net Profit 13,225.-

Clients Commitment:

X Verbal

Projection is 85 % complete

Letter of Commitment (attached)

Contract Signed

Signed Berne Ganis

E 13

Excerpts from Government's Exhibit 3

To: Cortes W. Randell
Fr: Bernie Ganis
October 18, 1968

COMMITMENTS

Gossard	I. S. Berlin - Salgan	Gross	Net	Time
		$56,250.00	$45,570.00	90%
Chicken Delight	I. S. Berlin-Salgan	106.875.00	85,500.00	80%
Cheeseboro Ponds	Antonowsky	30,000.00	24,000.00	85%
Dupont	Lewis	70,000.00	56,000.00	80%
Faberge	Lyons	56,250.00	45,570.00	85%
Barnes & Hines	Siadek	112,500.00	90,000.00	95%

1924

E 14

Excerpts from Government's Exhibit 3

NSMC MEMORANDUM

October 17 ,19 68

Clients Name Eastern Airlines
Clients Address 10 Rockefeller Plaza
New York, New York

Contracting Officer Dennis Kelly
Advertising Agency none

Description of Program Mini pac distribution-1 1/2 million pieces at 21.50 per thousand

Program to take place August

NSMC Gross Revenue $ 32,250

NSMC Costs

Printing	$	
Art and Layout	$	
Product Cost	$	
Travel	$	
Other (explain) shipping	$ 2,250	$

NSMC Net Profit $30,000

Clients Commitment:

X Verbal

X Letter of Commitment(attached)

Contract Signed

AE. Project ~~is~~ is 100 % complete

Signed Dennis M. Kelly

1925

E 15

Excerpts from Government's Exhibit 3

NSMC MEMORANDUM

October 17, 1968 ,19

Clients Name Eastern Airlines
Clients Address 10 Rockefeller Plaza
New York, N.Y.

Contracting Officer Dennis Kelly
Advertising Agency none-involved

Description of Program 12,000 posters for vacation package and youth fare announcement

Program to take place May-Sept.

NSMC Gross Revenue $13,440

NSMC Costs

Printing	$	
Art and Layout	$	
Product Cost	$	
Travel	$	
Other (explain) campus rep comm. .33/poster $3,960.	$	$

NSMC Net Profit $9,480

Clients Commitment:

X Verbal

X Letter of Commitment(attached)

_____ Contract Signed

AE. Project ~~is~~ is 100 % complete

Signed Dennis M. Kelly

1926

E 16

Excerpts from Government's Exhibit 3

NSMC MEMORANDUM

October 18, 1968 ,19

Clients Name Eastern Airlines
Clients Address 10 ROCKEFELLER PLAZA
New Yrk, N.Y.

Contracting Officer Dennis M. Kelly
Advertising Agency none involved

Description of Program Poster Program 12,000 posters announcement of 2/3 fare

Program to take place May-Sept.

NSMC Gross Revenue $ 13,440

NSMC Costs

Printing	$	
Art and Layout	$	
Product Cost	$	
Travel	$	
Other (explain) rep comm. .33/poster=$3,960.	$	$

NSMC Net Profit $9,480.

Clients Commitment:

X Verbal

X Letter of Commitment(attached)

_____Contract Signed

Projection is 100 % complete

Signed Dennis M. Kelly

E 17

Excerpts from Government's Exhibit 3

NSMC MEMORANDUM

October 17 ,19 68

Clients Name Eastern Airlines
Clients Address 10 Rockefeller Plaza
New York

Contracting Officer Dennis Kelly
Advertising Agency none

Description of Program creative work on youth card mames 2/3 fare poster and city pair mailing

Program to take place May-Sept

NSMC Gross Revenue $ 1,875

NSMC Costs

Printing		$	
Art and Layout		$	
Product Cost		$	
Travel		$	
Other (explain)	these are actual costs to freelance personnel	$	$
NSMC Net Profit	NONE		

Clients Commitment:

X Verbal

X Letter of Commitment(attached)

_____ Contract Signed

AE. Project ~~for~~ is 100 % complete

Signed Dennis M. Kelly

1928

E 18

Excerpts from Government's Exhibit 3

nsmc MEMORANDUM

October 17 ,1968

Clients Name Eastern Airlines
Clients Address 10 Rockefeller Plaza
New York, New York

Contracting Officer Dennis Kelly
Advertising Agency none

Description of Program 1000 student names on 3x5 cards for telephone follow up

Program to take place May 68

NSMC Gross Revenue $ 361.00

NSMC Costs

Printing		$	
Art and Layout		$	
Product Cost		$	
Travel		$	
Other (explain)	cost for tabulation of names	$ 150.00	$

NSMC Net Profit $151.00

Clients Commitment:

X Verbal

X Letter of Commitment(attached)

Contract Signed

AE. Project ~~Due~~ is 100 % complete

Signed Dennis M. Kelly

E 19

Excerpts from Government's Exhibit 3

EASTERN AIR LINES INCORPORATED 10 ROCKEFELLER PLAZA, NEW YORK, N. Y 10020, 212-986-4500

March 29, 1968

Mr. Dennis M. Kelly
National Student Marketing Corporation
680 Fifth Avenue
New York, New York

Dear Dennis:

Confirming my telephone conversation with you, we will accomplish the following elements between now and the end of the 1968 school year (June 1st):

1. Mailing to 300,000 students living on the Eastern system.

2. Two posters to cover 1200 schools (a total of 24,000 posters).

3. A mailing to 50,000 students soliciting travel home.

Materials for all of the above are now in production.

Sincerely,

Thomas E. Mullen
Manager Special Markets
Merchandising

TEM:jla

E 20

Excerpts from Government's Exhibit 3

[illegible] ROCKEFELLER PLAZA, NEW YORK, N.Y. 10020 / 212-986-4500

May 10, 1968

Mr. Dennis M. Kelly
National Student Marketing Corporation
680 Fifth Avenue
New York, New York

Dear Dennis:

As discussed, I would be interested to see what we could get out of 1000 names.

We would require a phone contact and they should meet the city pair qualifications used for the mailing.

Sincerely,

Tom

Thomas E. Mullen
Manager Special Markets
Merchandising

TEM:jla

E 21

Excerpts from Government's Exhibit 3

NSMC MEMORANDUM

October 17 ,19 68

Clients Name Eastern Airlines
Clients Address 10 Rockefeller Plaza
New York, N.Y.

Contracting Officer Tom Mullen
Advertising Agency none

Description of Program ad pad, youth fare card sales, paid on a per inquiry basis

Program to take place Sept-Oct 68

NSMC Gross Revenue $ 5,000 (est.)

NSMC Costs

Printing		$	
Art and Layout		$	
Product Cost		$	
Travel		$	
Other (explain)	no dist. costs on this prog.	$	$

NSMC Net Profit $5,000

Clients Commitment:

X Verbal

AE. Projection is 90 % complete

Letter of Commitment (attached)

Contract Signed

Signed Dennis M. Kelly

E 22

Excerpts from Government's Exhibit 3

NSMC MEMORANDUM

Ocotber 17 ,1968

Clients Name duPont
Clients Address Empire St. Bdg.
New York, N.Y.

Contracting Officer Robin Lewis
Advertising Agency none

Description of Program poster distribution, 5,000 pieces for "The Slicket" jacket

Program to take place Oct-Nov. 68

NSMC Gross Revenue $ 8,500

NSMC Costs

Printing		$	
Art and Layout		$	
Product Cost		$	
Travel		$	
Other (explain)	.33 x 5,000 field rep cost	$ 1,550	$

NSMC Net Profit $6,950

Clients Commitment:

X Verbal

AE. Project~~ion~~ is 70 % complete

_____ Letter of Commitment (attached)

_____ Contract Signed

Signed Dennis M. Kelly

E 23

Excerpts from Government's Exhibit 3

NSMC MEMORANDUM

Oct 17 ,19

Clients Name Eastern Airlines
Clients Address 10 Rockefeller Plaza
New York, N.Y.

Contracting Officer Dennis M. Kelly
Advertising Agency none

Description of Program city pair mailing program 50,000 pieces

Program to take place April 68

NSMC Gross Revenue $ 4,850

NSMC Costs

Printing	$	
Art and Layout	$	
Product Cost	$	
Travel	$	
Other (explain)postage, pkg., tying, sorting	$ 2,650	$

NSMC Net Profit $2,200

Clients Commitment:

X Verbal

X Letter of Commitment(attached)

_____ Contract Signed

AE. Project~~ion~~ is 100 % complete

Signed Dennis M. Kelly

E 24

Excerpts from Government's Exhibit 3

NSMC MEMORANDUM

October 17 ,19 68

Clients Name Eastern Airlines
Clients Address 10 Rockefeller Plaza
New York, N.Y.

Contracting Officer Dennis Kelly
Advertising Agency none

Description of Program City Pair - computer programming

Program to take place April

NSMC Gross Revenue $ 4,350

NSMC Costs

Printing		$	
Art and Layout		$	
Product Cost		$	
Travel		$	
Other (explain)	for computer sorting & programming	$ 3,000	$

NSMC Net Profit $1,350

Clients Commitment:

X Verbal

X Letter of Commitment(attached)

Contract Signed

AE. Project ~~Plan~~ is 100 % complete

Signed Dennis M. Kelly

1935

E 25

Excerpts from Government's Exhibit 3

NSMC MEMORANDUM

October 17 ,1968

Clients Name Eastern Airlines
Clients Address 10 Rockefeller Plaza
New York, N.Y.

Contracting Officer Dennis M. Kelly
Advertising Agency none

Description of Program computer program on city pair mailing

Program to take place August

NSMC Gross Revenue $ 3,600

NSMC Costs

Printing		$	
Art and Layout		$	
Product Cost		$	
Travel		$	
Other (explain)	programming of the computer and sorting	$ 2,800	$

NSMC Net Profit $800.

Clients Commitment:

X Verbal

X Letter of Commitment(attached)

Contract Signed

AE. Project ~~to~~ is 100 % complete

Signed Dennis M. Kelly

E 26

Excerpts from Government's Exhibit 3

NSMC MEMORANDUM

October 17 ,19 68

Clients Name Eastern Airlines
Clients Address 10 Rockefeller Plaz
New York, N.Y.

Contracting Officer Dennis Kelly
Advertising Agency none

Description of Program city pair mailing, back-to-school, 50,000 pieces

Program to take place August

NSMC Gross Revenue $ 6,650

NSMC Costs

Printing		$	
Art and Layout		$	
Product Cost		$	
Travel		$	
Other (explain)	postage	$ 1,800	$ 4,450
	mailing, sorting, tying, etc.	2,650	

NSMC Net Profit $2,200

Clients Commitment:

X Verbal

X Letter of Commitment(attached)

_____ Contract Signed

AE. Project ~~far~~ is 100 % complete

Signed Dennis M. Kelly

1937

E 27

Excerpts from Government's Exhibit 3

NSMC MEMORANDUM

October 17 ,19 68

Clients Name duPont
Clients Address Empire St. Bldg.
New York, N.Y.

Contracting Officer Dennis Kelly
Advertising Agency none

Description of Program research on "The Slikket" - Focus interview sessions and broadscale questionnaire mailing

Program to take place Sept-Oct. 68

NSMC Gross Revenue $ 9,000

NSMC Costs

Printing		$	
Art and Layout		$	
Product Cost		$	
Travel		$	
Other (explain)	res. house cost $4,500	$	$

NSMC Net Profit $4,500

Clients Commitment:

Z Verbal

AE. Project ~~Con~~ is 85 % complete

Letter of Commitment (attached)

Contract Signed

Signed Dennis M. Kelly

1938

E 28

Excerpts from Government's Exhibit 3

NSMC MEMORANDUM

October 17 ,19 68

Clients Name Waldorf
Clients Address Park Ave
New York, N.Y.

Contracting Officer BOB
Advertising Agency Koehl, Landis & Landen 41 E 42n St., N.Y.C.

Description of Program 2,000 posters

Program to take place Fall, 68

NSMC Gross Revenue $ 3,790

NSMC Costs

Printing	$	
Art and Layout	$	
Product Cost	$	
Travel	$	
Other (explain) 15% agency com., cost of .33 per poster	$	$

NSMC Net Profit $3073.15 6000

Clients Commitment:

_____ Verbal

_____ Letter of Commitment (attached)

X Contract Signed with ad agency

AE. Project ~~is~~ is 80 % complete

Signed _____

1939

E 29

Excerpts from Government's Exhibit 3

National Student Marketing Corp.

Institute for Latin Years

W. P. No.	
ACCOUNTANT	
DATE	

SERVING THE nsmc YOUTH MARKET

October 28, 1968

Mr. Pete Reckert
Group Product Manager
Syntex Laboratories Inc.
Stanford Industrial Park
Palo Alto, California 94305

Dear Pete:

The following proposal is the result of our meeting last week. We have two sets of objectives involved in this proposal; research and marketing.

Research Objectives

- Determine product name and corporate identity or logo
- Determine package design and ~~mechanics of the dispenser~~
- Determine position of the product in the market (this study will determine the product's universe or segment of the [illegible] care market that our efforts should be directed toward)

The methodology used to determine the above objectives will be presented to Syntex no later than November 1st. Sample size and questions will be determined by the objectives as outlined in our research proposals. The qualitative research questionnaire will determine copy and creative concept, pricing, product's universe, product's frequency and quantity of use, where purchased, and aesthetic appeal of the package design.

Depending upon the recommendations of our research staff, we may include a direct mail research program, however at this time it seems that the qualitative research can be sufficiently handled through the use of open-end panel discussions.

1981

Marketing Objectives

- Introduce product and product categories to high school and college students
- Create new users of the product
- Successfully enter product to proprietary market

E 30

Government's Exhibit 3

These objectives will be accomplished through the use of an integrated marketing mix including Bonanza and Collage direct mail to 5,000,000 students, poster program (estimated exposure 240,000,000 students), and hand sampling (sample size to be determined).

The contract we develop and the guarantee that we discussed at our meeting will be outlined in detail. At this time, let it suffice to say that any money spent on the direct mail program will be recovered by Syntex or NSMC makes up the difference.

Since we are on a rigid time schedule, it is imperative that any and all deadlines be met. Upon approval of this original proposal for developing a methodology on the research program, NSMC will develop the questionnaire and establish college consumer panels throughout the country. The following deadline schedule assures Syntex of introducing the product in early 1969 and participating in the Collage and Bonanza and other programs in March of '69.

Deadline Date	Activity
October 29	Determine research objectives
November 1	Approval of research methodology and questionnaire
November 5	Group interviews start
November 15	Evaluate research findings
November 25	Prepare copy and concepts for brochures (including test vehicles)
December 6	Approve mechanical art and copy for production
December 6	Commence production of brochures including test brochures

If the above proposal meets with your agreement, we can commence with preparations for the research questionnaire and methodology.

Thank you for your consideration.

Sincerely,

Jack E. Sladek

Jack E. Sladek
West Coast Director of Marketing

JES/jf

cc: Carroll Walters
Richard Rogers

for Syntex

for National Student Marketing Corporation

1982

E 31

EXCERPT FROM GOVERNMENT'S EXHIBIT 4B

LIABILITIES AND EXPENSE BINDER (8/31/68); PP. 1711-1835

NSVIC

Accrued Liabilities on Contracts In Progress
8/31/68

W. P. No.	
ACCOUNTANT	
DATE	11/1/68

Balance per G/L @ 8/31/68	-0-
PMMA Co	1068 30 00
G/L + Report Co 8/31/68	1068 30 00

1779

FORM-WP-71

E 32

EXCERPT FROM GOVERNMENT'S EXHIBIT 4C

GENERAL BINDER (8/31/68); PP. 1463-158

National Student Marketing Corporation

(1) Does — Has — A list of contracts in process at Nov 30, 1967? A list of contracts in process. Yes.

(2) Intercontinental Broadcasting Corp. — Does — cost equivalent to agreement of 8/31? Why, explanation of? } Yes straight

(3) Is it appropriate to classify income as amortization of prepaid as current asset? ok Yes?

(4) Does the notes have to reflect 8/31/67 balance sheet? } done We will not [illegible] in 1967 statements

(5) Prepare a list of the account executives showing when they were employed. ok - This is [illegible] the program

(6) I would like an analysis of the income for FY 1967 and 1968 showing the typical programs which yielded the income, i.e., straight position jobs, direct mail programs, etc. Why haven't the contracts in process been [illegible] previously? } Yes [illegible]

Also the words, established as cash from the operations should be changed to 1470 the contracts in hand as of Aug. 31, 1968.

Plan — Can the S.E. Financial Commissioner cancel any contracts booked? } Probably with the [illegible] provisions

COMPANY NATIONAL STUDENT MARKETING CORPORATION

CLASSIFIED TRIAL BALANCE

FOR YEAR (OR OTHER PERIOD) ENDED AUG 31 1968

INCOME STATEMENT

W. P. NO.	11-3
ACCOUNTANT	[illegible]
DATE	11/25/69

TITLE OF ACCOUNT OR CLASSIFICATION	BALANCE AT BEGINNING: FINANCIAL STATEMENTS	BALANCE AT BEGINNING: BOOKS	BALANCE BEFORE ADJUSTMENTS: INTERIM	BALANCE BEFORE ADJUSTMENTS: FINAL	ADJUSTMENTS: DR.	ADJUSTMENTS: CR.	BALANCE AT END: BOOKS	RECLASSIFICATIONS: DR	RECLASSIFICATIONS: CR	BALANCE AT END: FINANCIAL STATEMENTS	W. P. NO.
Gross sales				111125861	1235525	190081925	289456261			289456261	X-1
Less refunds				(177087)			(177087)			(177087)	
Net sales				110948774	1235525	190081925	289279174			289279174	
Cost of sales				75669779	135264732	3349526	207534510			207534510	X-2
Gross profit				35278995	136502782	133481451	82244664			82244664	
Selling, general and administrative expenses				40154033	4693355	1194064	43644324		(214737)	43429587	X-3
Operating income				(4875038)	141187137	132287515	38600340			38815077	
389 Other income				206113	45527 K-5	101879 47727	377769		(7425)	370344	X-4
				(4668925)	141187137	132571771	38918109		(222312)	38695797	
Other deductions - interest				-0-			-0-	(E)	222312	222312	M
				(4668925)	141187137	132571771	38918109		-0-	38918109	
Earnings before Federal income taxes				(4668925)	141187137	132571771	38918109		-0-	38918109	
Federal income taxes											
950 Current				3400000		(A) 3400000	-0-			-0-	
Deferred				-0-	(A) 1907909		19079100			19079100	
				3400000	1907909	3400000	19079100			19079100	
Net earnings				(8068925)	140279228	129171771	19839009		-0-	19839009	

1538

1537

E 33

Excerpts from Government's Exhibit 4C

Excerpts from Government's Exhibit 4C

N.S.M.C.
Adjusting Journal Entries
8/31/68

W. P. No.	A-22
ACCOUNTANT	D. H. Blackwell
DATE	11/21/68

(507) E-4, X-3, X-1.

253	Intercompany - NESS		84539		
31-	Miscellaneous expense		22340		
68-	Interest income				84339
68-	Rental income			106879	22500

To record interest income on 7% note payable by NESS to NSMC per NESS audit WIP's X-5, and to record rental income on two NSMC trucks rented to NESS, 1/2 month @ $50.- per NESS audit WIP's X-6, and to record misc expense represent a/c receivable due to NESS by NSMC per NESS audit.

(511) Special Sales WIP's, X-1, X-2, O-5

Unbilled receivables and accrued cost and estimated earnings on contracts in progress	1740850 00		
Cost of sales	1068303 00		
Sales			1740850 00
Accrued liabilities on contracts in progress			1068303 00

To record contracts in progress per special sales work papers binder.

(627)

Provision for Federal Income Taxes - deferred	190769 00		
Provision for Federal Income Taxes - current			34000 00
Deferred taxes payable			156769 00

To record deferred tax expense & deferred taxes payable @ 8/31/68.

(537)

206 Leasehold improvements	945		
Amortization to date - Leasehold			945

To gross up leasehold improvements in order to conform financial statements to SEC 10K statements.

E 35

GOVERNMENT'S EXHIBIT 5

NSMC ANNUAL REPORT (Y/E 8/31/68)

National Student Marketing Corporation ANNUAL REPORT–1968

E 36

Government's Exhibit 5

Cortes W. Randell
President

Donald A. Fergusson
Executive Vice President

Robert A. Fergusson
Vice President, Director of Operations

Dennis Kelly
Vice President, Director of Media Services

Ronald W. Michaels
Vice President, Director of Marketing

Douglas R. Garriock
Vice President, Director of Canadian Operations

Bernard Ganis
Director, Direct Mail Advertising Service

Douglas Garnett
Vice President, Corporate Planning and Administration

Bernard Kurek
Comptroller

E 37

Government's Exhibit 5

National Student Marketing Corporation **ANNUAL REPORT–1968**

SERVING THE nsmc YOUTH MARKET

Contents

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Map of NSMC Offices and Facilities	10-11
Financial Data, Fiscal Year 1968	16
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Officers, Principal Offices, Auditors, Transfer Agent	21

Highlights of the Year	1968	1967
Gross volume	$5,579,169	3,062,316
Income before taxes	$ 699,116	291,296
Net earnings	$ 388,031	168,616
Earnings per share	$ 0.51	0.25
Employees	270	21
Principal offices	16	1
Clients	75	8
Computers in operation	2	–
Subsidiaries acquired	8	–

Government's Exhibit 5

Company directors (l. to r.) *Frank G. Dickey, Robert A. Fergusson, Glen Shaffer, Cortes W. Randell, Cortes G. Randell, Donald A. Fergusson, and James F. Joy meet in Washington.*

TO THE STOCKHOLDERS:

IT IS A PLEASURE to report to you on our 1968 fiscal year of operations, during which National Student Marketing Corporation became a publicly-owned company. The year has been one of remarkable growth, carefully planned so as to better equip NSMC to take advantage of increasing market opportunities.

Your company has developed unique capabilities to reach and serve the youth market, that segment of the U.S. population under 25 years of age which represents nearly one-half of our entire population. The purchasing power of this market is estimated to be $35 billion, and its direct influence on the spending power of parents and older consumers is probably equivalent to twice that amount. The active and affluent young, however, are not effectively reached by conventional media such as television, radio, national magazines, and newspapers. Your company's coordinated approach, which offers a variety of alternatives such as posters, direct mail, student newspaper insertions, calendars, entertainment, and various other means of reaching the high school and college customer, is proving to be the key to open this relatively untapped market. Every day more leading companies are using our facilities to sell their products and services to the young.

There are, in addition, valuable indirect benefits for our clients arising from their sales to young people. As high school and college students try products and services, they develop strong personal preferences. Surveys show, for example, that eight out of ten college students after completing their formal education stay with the brands they have chosen. Thus, the work of the National Student Marketing Corporation has decided influence throughout the total

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Government's Exhibit 5

U.S. market, a fact that has helped sustain the company's impressive growth during the fiscal year 1968.

We believe this record of growth speaks for itself. Sales climbed to $5,579,169 in 1968, as compared with $3,062,316 for the prior year. Net earnings for the twelve-month period amounted to $388,031, or $0.51 a share, as compared with $168,616, or $0.25 a share, in fiscal 1967. During 1968, National Student Marketing Corporation acquired several companies and commenced many activities designed to round out our range of services in reaching young people and in extending their influence throughout the market as a whole. In doing so, we used the idiom and techniques that we know are acceptable to and are acted upon by the youthful customer.

The following pages describe the events of our 1968 fiscal year in detail. We believe you will find them an interesting account of planned expansion to serve a widening opportunity. They can never indicate, however, the importance of the able and enthusiastic employees who have contributed so much to our past success and to whom we look for an even more exciting future.

Very truly yours,

Cortes W. Randell, *President*

Cortes G. Randell, *Chairman*

November 15, 1968

Cortes G. and Cortes W. Randell confer on 1968 growth.

Government's Exhibit 5

The Year in Review

National Student Marketing Corporation

AT THE BEGINNING of the 1968 fiscal year, National Student Marketing Corporation's services to the youth market represented the most complete approach available to national advertisers. Even so, plans were made to expand our services substantially and to establish many new ones, while at the same time acquiring other companies which would add to our capabilities in the field. Under this program, eight companies were acquired and several facilities formed or expanded, thus extending our operations in depth throughout the United States and Canada. A marketing system has been developed which is unparalleled on the basis of geographical coverage, selectivity according to age and educational level, economy and efficiency, as well as range of facilities.

In response to this growth, the list of NSMC clients steadily increased. At the year's end, approximately seventy-five of the nation's largest and most widely known companies were using various combinations of NSMC's services to reach young people. This list includes leading airlines such as American and Eastern; drug and cosmetics companies such as Bristol-Myers, Colgate-Palmolive, Miles Laboratories, Warner-Lambert, and Yardley of London; Metropolitan and Aetna Life insurance companies; Ford and American Motors in the automobile industry; banks such as Bankers Trust, First National Bank of Boston, and Bank of America; magazine publishers, including Time, Inc., Newsweek, and Dell; in addition to names such as General Electric, Scott Paper Company, Xerox Corporation, and the United States Department of the Navy. Beyond serving clients of this caliber, NSMC also set up systems to sell its own products and services to the high school and college population.

Calendar Desk Pads, a popular campus information and advertising medium, are checked by Donald A. Fergusson.

Companies Acquired in the East and West

THE FIRST MAJOR ACQUISITION of the year was COLLEGIATE ADVERTISING LTD. of Vancouver, British Columbia, which took place in January. Collegiate has had a successful record on its own, and now operates the company's campus marketing and field sales programs in all states west of the Mississippi River and in all provinces of Canada. In addition, it carries out extensive national mailing programs in both countries.

Collegiate Advertising also has offices in Oakland and Sherman Oaks, California; in St. Louis, Missouri; and in Toronto, Ontario. To serve its large geographic territory, it maintains inventories in leased warehouses located in fourteen cities throughout the middle and western states. The former owners of Collegiate, Donald A. Fergusson and Robert A. Fergusson, have assumed important operational responsibilities as principals of NSMC. Their interest also extends to related fields of activity that are giving exciting new dimensions to the National Student Marketing Corporation.

The company widened its operational base in the eastern area of the United States by the acquisition in January of NEW ENGLAND SUBSCRIPTION SERVICE, INC. New England Subscription's operations are directed to some 600 colleges in the New England and Midwest

regional areas. This affiliate operates a full-time field program with a group of employees who cover the various campuses with a fleet of company-owned delivery vans. This force carries out distribution responsibilities for the various advertising programs for which NSMC has contracted.

Leading List Company Added

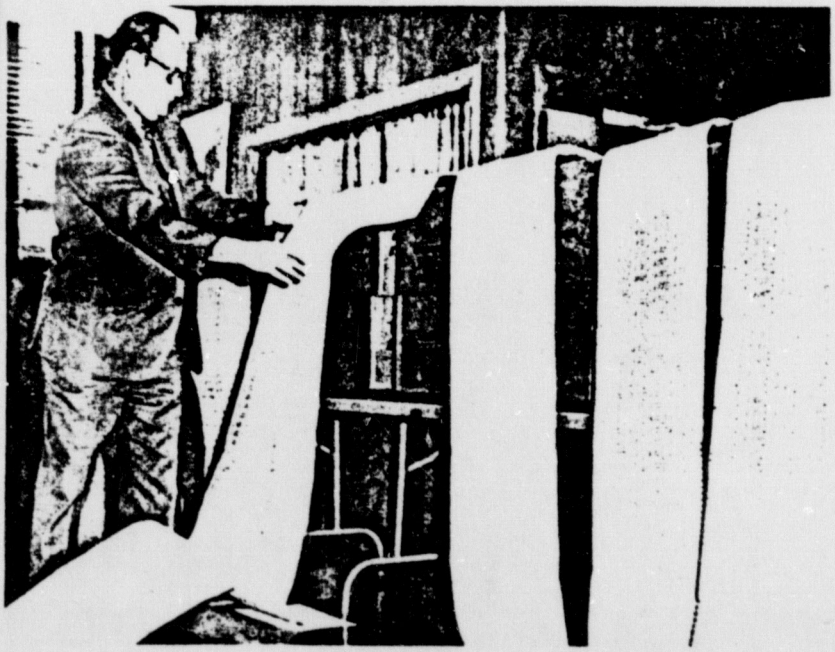
SINCE DIRECT MAIL is one of the principal activities of the company, National Student Marketing Corporation was greatly strengthened when SHAFFER ENTERPRISES, INC., the largest mail list company in the United States, became a part of the organization in July. All the employees and facilities of Shaffer continue to operate within the NSMC organization. Shaffer's business has been a growing one, increasing by about 30 per cent during the past two years, with current sales showing even greater improvement.

The Shaffer company is particularly oriented to the youth market. It compiles the names and addresses of more than 3,000,000 vocational and high school students annually, which are sold to many companies for use in direct mail solicitation. Another highly compatible feature of Shaffer Enterprises is the fact that, like National Student Marketing Corporation, all of its operations are highly computerized. In this connection, the Shaffer company has announced plans to replace its current IBM 360 Model 20 with the newer Model 30, and has ordered a new IBM 1228 Optical Scanner. Acquisition of Shaffer's facilities has given the company leadership in the field of direct mail service to the expanding high school market.

Advertising Posters often carry coupon pads. Here a university student takes order for personality wall decoration sold directly by NSMC.

Important Developments in Recruitment Field

CONNECTED WITH the college market but with far-reaching implications is COMPUJOB, INC., acquired in August of 1968. This company specializes in the recruitment for industry of employees from col-



Computer printouts of names being examined by Glen Shaffer are typical of NSMC's *highly automated operations.*

Tanfield C. Miller and Edward M. Swan, Jr., of Compujob discuss computerized information through which large national companies are helped in recruiting activities.

leges and graduate schools, and has become one of the most active units of National Student Marketing Corporation.

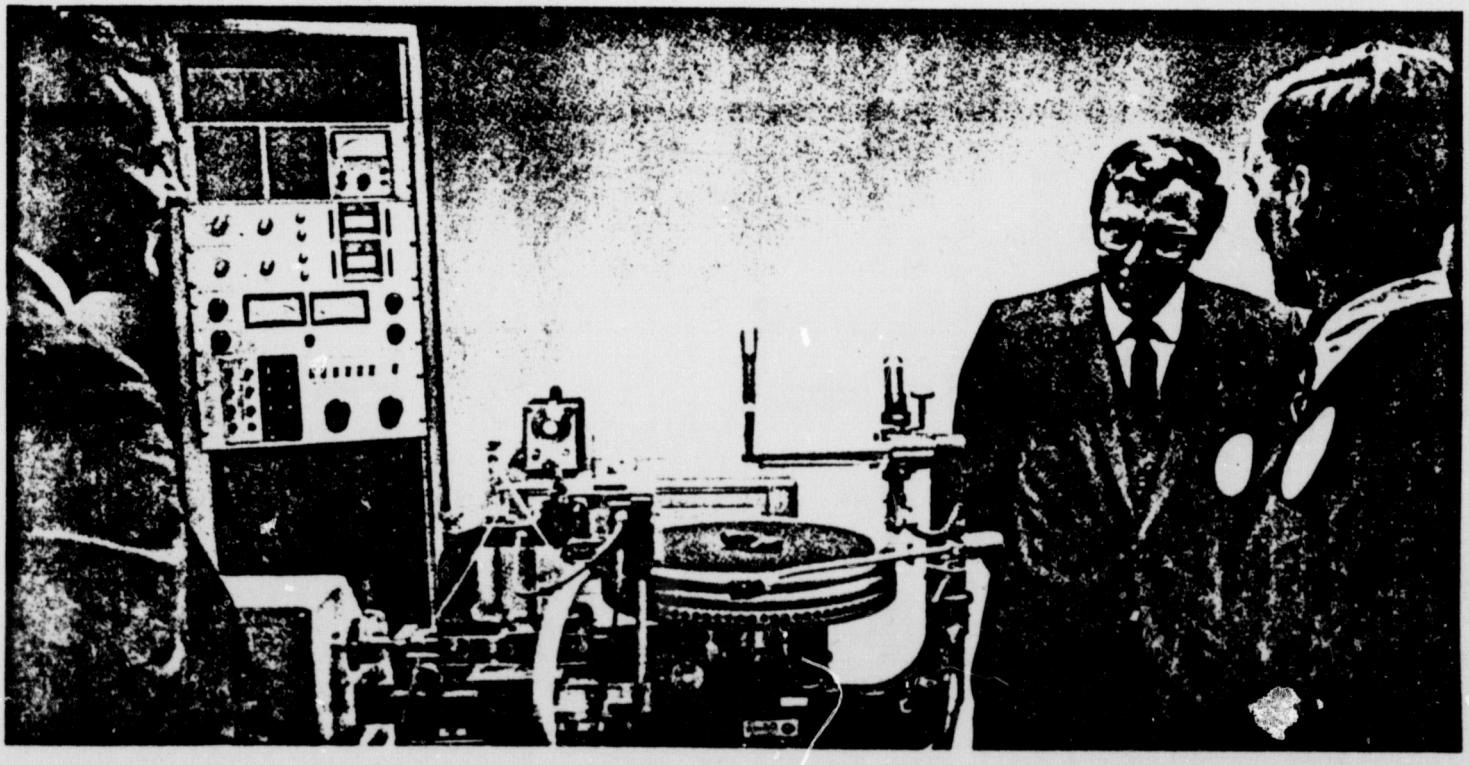
Compujob helps its client companies by making their recruiting efforts as efficient as possible, as well as assisting graduating students to find those employers who are offering positions best suited to the students' educational background and employment preferences. Detailed questionnaires are filled out by students and fed into a computer where the information, which constitutes a comprehensive resume, is instantly available to companies subscribing to the service.

Compujob expects to reach half of the degree candidates who will enter the labor market next spring, and has already signed contracts with more than forty leading companies in the United States and Canada. Among them are Continental Oil Company, J. C. Penney, Allied Chemical Corporation, and a number of large insurance companies.

Enhancing Compujob's ability to serve the employee-employer market is another 1968 acquisition, NATIONAL MANPOWER REGISTER, INC., which took place in September. This company maintains a nationwide data bank of some 15,000 engineers and scientists who are seeking new positions. Detailed information on their training, experience, geographical preferences, and job goals is computerized and made available for a fee to personnel agencies throughout the United States. In addition, National Manpower Register has developed computer-based internal personnel selection systems by which employers can more effectively administer their employee evaluation and promotion programs.

The National Manpower Register operations were merged into those of Compujob, giving the enlarged unit added competence in

Modern manufacturing facilities of International Record Corporation, Ltd., in Vancouver, British Columbia, give NSMC its own source to supply youthful demand for records.



the use of computers to place college seniors, graduate students, and technical specialists in the employment field.

Other Developments in the Youth Market

THE acquisition of INSTITUTIONAL DIRECTORIES, INC., of Lubbock, Texas, will add another dimension to the company's capabilities. Institutional Directories specializes in publishing telephone directories under contracts with many of the major colleges and universities. This medium also provides income from both local and national advertising.

Phonograph records are closely identified with the interests of young consumers. INTERNATIONAL RECORD CORPORATION, LTD., was formed, therefore, as a subsidiary of NSMC in May, 1968, and opened new facilities in early October in Vancouver, British Columbia. The company is the only one to manufacture records in western Canada, and its modern, 5,000-square-foot plant contains four new record presses. These presses now have the capacity to produce 2,000,000 long-playing and 45 r.p.m. records annually. There is also a complete tape-to-disk computerized mastering system and matrixing facility which, in combination with the highly automated manufacturing process, make International Record one of the most up-to-date sources of records for worldwide distribution.

In October, 1968, NSMC acquired LEWIS BROTHERS CERAMICS, INC., a manufacturer of custom-decorated ceramics and glassware designed especially for the college customer. Founded in 1946, Lewis Brothers distributes its products to more than 1,200 schools and colleges throughout the United States and Canada.

In addition to these many campus outlets, the plaques, ashtrays, mugs, and glassware of Lewis Brothers will be increasingly distributed directly through National Student Marketing Corporation's own facilities. The first NATIONAL STUDENT STORE was opened at the end of September in Norman, Oklahoma, at the campus of the University of Oklahoma. The store is run in conjunction with Retail Store Management, Inc., of Boston, and is the first in a chain of retail discount stores located on or near college campuses. The second has been leased in the new student union building at the University of British Columbia in Vancouver.

These stores are laid out so as to appeal to college men and women. They carry a complete line of health and beauty aids, films and cameras, records, magazines, and paperback books. As their numbers expand, they will provide significant outlets for the products and services of NSMC and its client companies in the United States and Canada.

As the 1968 fiscal year ended, agreement in principle had been reached to acquire an option to buy MULTI VIEW SYSTEMS, INC., the owner of the cable TV franchise for Lodi, California. The Lodi system is currently under construction and has begun to serve its first customers. In addition, NSMC has an interest in MULTI VIEW SYSTEMS OF WOODLAND, INC., which holds the franchise for the cable TV system of Woodland, California. Both franchises were awarded in competition with major cable TV companies. Expansion into this

Mugs bearing college crests are one of many items produced by Lewis Brothers Ceramics for student customers.

National Student Store at University of Oklahoma is first of many to serve campus needs.

Some of the fifty-thousand "thank you" letters from high school girls in response to COLLAGE *are assembled by head of Direct Mail Advertising Service, Bernard Ganis.*

Direct distribution on campus is handled by NSMC *Marketing Representatives.*

important field of television has many implications for marketing to youth, especially in connection with educational programming, and puts the company in position to develop the use of electronic media.

Development of NSMC Programs, Services, and Products in 1968

THE STRUCTURE created by the company's year of expansion and acquisition has greatly increased National Student Marketing Corporation's ability to offer a wide range of programs and services to client companies. The program area falls into two principal categories, the first being those under which NSMC markets a company's products and services in return for a commission based on gross sales volume. The second program involves direct marketing to students or performing services such as marketing research, sampling, mailing, or conducting student consumer panel evaluations for a fixed fee. NSMC also sells products and services directly to students on its own behalf. These include poster programs, fraternity and sorority promotions, and the sale of merchandise through National Student Stores.

During the 1968 fiscal year, activities under these various headings grew rapidly. Among significant developments were the following:

Air Travel Cards. Student half-fare air travel cards are sold through direct mail, on-campus distribution, on-campus poster programs, and student newspaper inserts. A portion of the purchase price of each card is retained by NSMC, which also mails the cards as part of its fulfillment activities.

Sale of Magazine Subscriptions. National Student Marketing Corporation, in conjunction with a leading international magazine agency, represents directly or indirectly thirty-six publishers offering fifty magazines. During the fiscal year reported here, 210,000 subscriptions were sold, as compared with 54,000 in 1967.

Direct Mail. The Mail Advertising Division of NSMC launched its first cooperative direct mail program in the fall of 1968 for high school and college girls. Called COLLAGE, it was mailed to 1,500,000 high school and 1,250,000 college girls by name from lists developed by Shaffer Enterprises, a wholly owned NSMC subsidiary.

Government's Exhibit 5

The contents of COLLAGE consist of advertising brochures presented in the form of special product offers, samples, and product information. The first edition included advertisers such as E. I. du Pont, Purex Corporation (Campana Division), Emko, American Airlines, Records Unlimited, and others, who offered a combined total of more than 30,000,000 brochures.

Based upon the success of COLLAGE, NSMC has initiated a continuing program for publication each spring and fall. Moreover, in the spring of 1969, BONANZA will be introduced for high school and college males. BONANZA will have an initial mailing to 1,000,000 high school and 1,250,000 college male students by name. All indications are that BONANZA will carry advertising messages from well-known companies in the fields of automobile manufacturing, toiletry and grooming, fashion, education, and travel.

Record Clubs. Memberships in record clubs are a popular student purchase and are sold by NSMC on a commission basis. The company represents two of the largest clubs and during fiscal 1968 increased its sale of memberships in them by 130 per cent over sales for 1967.

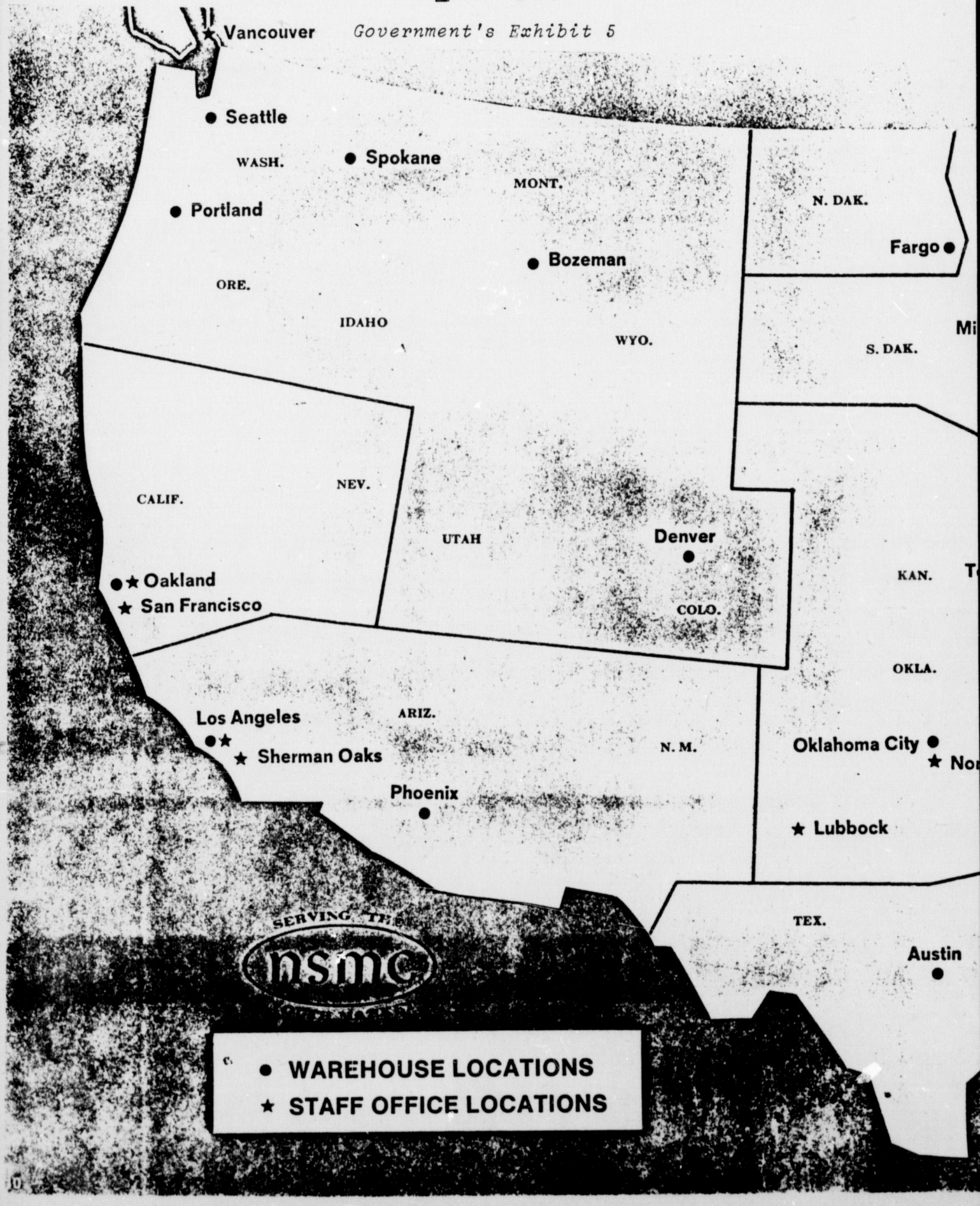
Fulfillment Mailing. This activity consists of answering direct mail requests and is growing at such a rate that, during the 1968-1969 school year, NSMC will mail an estimated 1,200,000 fulfillment items. These include American Airlines Youth Fare Cards, National Employment Services Institute Summer Employment Guides, computer dating "matches," giant-size wall posters, "blow ups," and so forth. Unlike mass mailings, the NSMC Fulfillment Mailing Program represents contact with young men and women who have already demonstrated their willingness to buy. The potential response to an offering of a new product, service, or premium is, therefore, much greater than it would be in any other mailing program available.

Poster Advertising. The principal form of this activity is the posting by NSMC on-campus Marketing Representatives of 20,000, 11′ x 14′, 4-color posters for individual clients. These are placed on 1,837 col-

More than 64,700,000 pieces of marketing information were distributed by hand for clients in 1968.

Merchandise for direct sale by NSMC to students is examined by staff members.

Government's Exhibit 5



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Government's Exhibit 5

Interviews by campus Marketing Representatives are essential to research activities conducted at more than 200 colleges and universities.

lege campuses in forty-eight states and throughout Canada. The standard four-week program provides effective coverage of about 6,000,000 college students, or about 95 per cent of the total college enrollment.

To advertisers, this vehicle continued to prove itself as a highly effective yet inexpensive message and response medium. An advertiser may offer premiums by attaching 50-100 padded coupons to each poster.

Companies such as Warner-Lambert (Listerine), Bristol-Myers (No-Doz), and Colgate-Palmolive are using the poster program.

Sampling. National Student Marketing Corporation is the only organization in the field of marketing that is capable of sampling by hand on a national basis and providing the names and addresses of all recipients for verification. Such sampling is done on a door-to-door direct hand-out basis. This unique service offers an advertiser virtual elimination of duplication; no limit on sample size or weight (when the sample weighs more than an ounce, this method costs less than direct mail); verification of the sample with the recipient's name and address, which is also usable for follow-up research; and the endorsement and personalized service of the recipient's fellow students.

Two kinds of hand-sampling programs are available. In the first, distribution to client specifications on 800 college campuses is made on a basis which limits one sample per room, or per occupant. Distribution is made by hand by the company's campus Marketing Representatives in dormitories, fraternities, university cooperatives, apartment complexes, and elsewhere, according to the percentage of students in each type of living unit. In the second program, distribution is made on a mass basis from a desk or display counter. Sampling takes place in dormitories, student union buildings, and other activity centers. NSMC can sample approximately 3,600,000 students with its sampling methods.

Marketing strategy for clients is planned by NSMC *executive team.*

Direct Distribution by Hand. Hand distribution of coupons, flyers, brochures, circulars, and other advertising or promotional pieces is offered on 800 campuses. The items are personally distributed in living units, cafeterias, classroom buildings, activity centers, at athletic events, and similar activities. Time, Inc., American Airlines, Eastern Airlines, Record Club of America, and other clients are using this marketing vehicle.

In fiscal 1968, 64,700,000 individual items were directly distributed for clients by this method, as compared with 29,900,000 items in 1967.

Newspaper Insertions. NSMC enlarged its program of inserting 4-color advertising materials of clients into high school newspapers and college newspapers. Students enrolled in the high schools participating in this program generally represent well-to-do, college-educated families and, as a result, offer significant present and future sales potential to imaginative advertisers. Direct mail and insertions in high school newspapers are the only two efficient, personalized media available at the present time that reach this market effectively.

Research. Advertising response, product attitude, and other types of basic research conducted on a limited basis were offered during 1968 on 325 college campuses. With a potential sample of 3,500,000 respondents, NSMC representatives administered 21,500 questionnaires according to client specification.

Calendar Desk Pad. This advertising vehicle continued to grow during 1968. The desk-top writing pad is printed in two colors, with advertising on both sides, and is published twice yearly. It contains a local campus calendar, a campus phone directory, and a semester calendar showing campus athletic, academic, and activity dates. A feature of the Calendar Desk Pad enables students to ask for additional information about offers as well as to order products and services directly by using perforated business reply cards attached to the pad. The pads were published at 118 of the largest colleges throughout the United States and Canada in 1968 and had a circulation of 600,000. Major advertisers in 1968 included KLM Airlines, Volkswagen, Car-Tours Europe, Canadian Pacific Airlines, and Evelyn Wood Reading Dynamics.

Book covers, like the Calendar Desk Pads, are localized to each campus and are given free to students. They were distributed on 35 campuses in 1968 and received outstanding pass-along exposure as the student "toured" the campus.

Educational Marketing Services. EMS was organized during 1968 to supplement the motivational and educational tools available to high school marketing students in the areas of merchandising, marketing, and management. EMS works in conjunction with DECA, the Distributive Educational Clubs of America, which are the marketing clubs operating in high schools.

In its first year of activity, EMS supplemented the education of

Experts in reaching high school students are (l. to r.) Robert Rasmusson, Ronald Bishop, and Glenn Zinsmeyer, all members of Educational Marketing Services.

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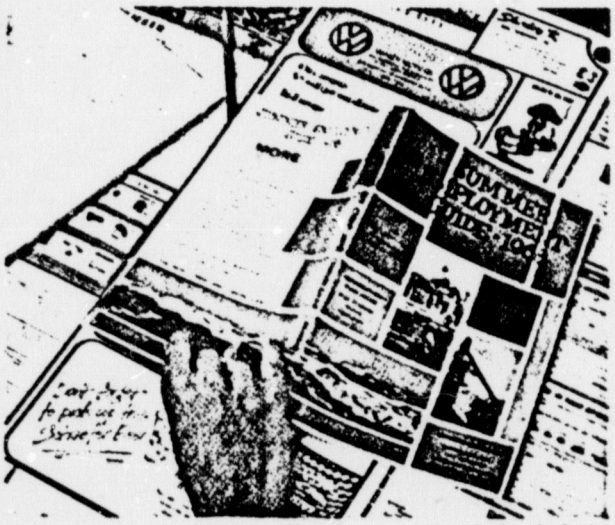

Students buy the Summer Employment Guide for help in finding work in industry, in recreational activities, or abroad.

30,000 Distributive Education students in 500 high schools in fifteen states. It reached more than a half-million high school students with its special marketing projects and client promotions.

Creative Arts Program. This activity, which NSMC exclusively represents as a direct agent, was established in May, 1968, and immediately became active in sponsoring on-campus entertainment at various colleges and universities. A large portion of the student dollar is spent on entertainment, auguring well for the continuing success of these shows which feature top entertainment and professional management.

Creative Arts has booked college engagements for Harry Belafonte; Bill Cosby; Aretha Franklin; Sergio Mendes; Peter, Paul and Mary; Lou Rawls; The Rascals; The Fifth-Dimension; and John Kenneth Galbraith. Those performances which have taken place have been enthusiastically received by college audiences.

Consumer Panels. With students as participants, four consumer panels were set up in 1968 to give a representative sampling of students' opinions regarding new products and ideas. These panels provided valuable insight and understanding in selecting the best products and proper methods for reaching the students. Although their services were used by a limited number of clients during the fiscal year, it is anticipated that usage will increase significantly in the coming year.

College Film Services. In addition to live entertainment, NSMC, through its College Film activity, will sponsor commercial college film programs consisting of classic domestic and foreign movies as well as movies produced by leading American industrial companies. The latter will be shown at no charge to students.

Transplex—Mobile Marketing. This activity was also set up during the year to offer a new medium to advertisers, manufacturers, and institutions.

Transplex Mobile Units operate nationally, regionally, or locally. They are specially designed to stimulate interest in existing products, services, and ideas and to introduce new ones in new ways.

Transplex serves not only the youth market but plans also call for it to operate in shopping centers, at conventions, trade shows, and other suitable high-traffic locations throughout the United States and Canada. At these places, units can deliver samples, coupons, and brochures to selected audiences while delivering an impressive audio-visual message.

NSMC has the same exclusive relationship to College Film Services and Transplex as it does to the Creative Arts Program.

Summer Employment Guide. This product was the first to be offered by NSMC, and its sales increased substantially in fiscal 1968, the seventh year of publication. The several editions of the *Guide* are concerned with summer employment opportunities for college stu-

Government's Exhibit 5

ents in business and recreation in the United States as well as in oreign countries.

Doubleday & Co. published and sold one edition of the *Guide*, in ddition to those which NSMC markets itself. In 1968, a total of 2,000 copies were sold through these combined efforts, as compared ith 67,000 copies in 1967.

ersonality and "Blow-Up" Wall Posters. The sales of these prodcts resulted in one of the most successful activities of the 1968 scal year. A total of 104,500 were purchased by students throughut the United States and Canada.

)ther Operations. The year saw a continued gain in sales of Opertion Match, a computer dating service that is very popular with colege students. A new activity, the sale of insurance to students and heir parents, was begun, and early results indicate a high market otential. Expansion took place in the activity of the College Admisions Research Service Center, which specializes in student recruitnent for higher and post-secondary educational institutions. NSMC as also appointed as sales and marketing agent for the National College Queen Pageant, a nation-wide campus activity with high ublic interest.

Corporate Developments. As the company's external growth proeeded, it was matched in fiscal 1968 by the increasing use of modern usiness methods within National Student Marketing Corporation. Comprehensive accounting policies and procedures, cost and billing ontrol systems, employee relations programs, and other measures ere expanded and improved. Many of these resulting advances were nade possible by computerized techniques and equipment, which hus helped deliver better service within the company as well as to ts many clients.

One key to NSMC's *progress is the comprehensive use of modern computer systems throughout the company's operations.*

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National Student Marketing Corporation and Subsidiaries

Consolidated Balance Sheet

August 31, 1968, *with comparative figures for 1967 (note 1)*

Assets	1968	1967
Current assets:		
Cash	$ 182,554	112,768
Receivables:		
Trade (note 5)	759,775	255,890
Current installment of long-term note receivable	22,003	–
Unbilled receivables and accrued costs and estimated earnings on contracts in progress (note 3)	1,763,992	28,092
Other	70,970	63,786
	2,616,740	347,768
Less allowance for doubtful receivables	15,224	7,602
Net receivables	2,601,516	340,166
Inventories, at lower of cost (first in, first out) or market	97,100	47,484
Unamortized cost of prepared sales programs and promotional items (note 4a)	486,651	287,495
Unamortized list acquisition costs (note 4b)	198,819	126,943
Prepaid expenses	45,123	17,395
Total current assets	3,611,763	932,251
Note receivable due from officer	13,775	13,775
6% note receivable, less current portion	88,011	45,552
Investment in nonconsolidated subsidiary (note 1)	11,960	–
Equipment, furniture and fixtures and leasehold improvements, at cost (note 5):		
Machinery and equipment	141,644	112,355
Automotive equipment	80,822	67,226
Furniture and fixtures	132,699	43,879
Leasehold improvements	13,295	3,007
	368,460	226,467
Less accumulated depreciation and amortization (note 8)	114,894	72,984
Net equipment, furniture and fixtures and leasehold improvements	253,566	153,483
Other assets:		
Unamortized list acquisition costs (note 4b)	117,496	98,457
Trademark	210,960	–
Miscellaneous	22,238	1,981
Total other assets	350,694	100,438
	$4,329,769	1,245,499

See accompanying notes to consolidated financial statements.

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Liabilities and Stockholders' Equity	1968	1967
Current liabilities:		
Notes payable (note 5):		
Bank	$ 155,600	118,900
Other	38,000	54,705
Total notes payable	193,600	173,605
Current installments of long-term debt (note 5)	19,889	16,012
Accrued costs on contracts in progress	1,068,303	–
Accounts payable	392,464	356,521
Accrued expenses	58,472	27,439
Unearned income	73,462	120,677
Federal and Canadian income taxes	81,599	47,448
Deferred Federal income taxes (note 4)	312,639	85,000
Total current liabilities	2,200,428	826,702
Deferred Federal income taxes (note 4)	55,000	43,000
Long-term debt, less current portion (note 5)	39,980	38,053
Stockholders' equity (notes 2, 6, 7, 9, and 10):		
Common stock, par value $.05 per share. Authorized 1,500,000 shares; issued 949,042 shares	47,452	39,683
Additional paid-in capital	1,501,421	182,416
Retained earnings	503,571	115,645
	2,052,444	337,744
Less cost of 65,167 shares in treasury	18,083	–
Net stockholders' equity	2,034,361	337,744
Commitments (note 9)		
	$4,329,769	1,245,499

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Consolidated Statement of Earnings

Year ended August 31, 1968, *with comparative figures for 1967 (note 1)*

	1968	1967
Gross volume of services and products (note 1)	$5,579,169	3,062,316
Net sales:		
Services	3,472,724	1,016,375
Sales of products	1,516,722	1,370,125
	4,989,446	2,386,500
Cost of sales:		
Services	2,183,051	595,253
Sales of products	550,996	527,108
	2,734,047	1,122,361
Gross profit	2,255,399	1,264,139
Selling, general and administrative expenses	1,547,867	957,826
Operating profit	707,532	306,313
Interest and other deductions, net	8,416	15,017
Earnings before income taxes and extraordinary item	699,116	291,296
Provision for taxes on income:		
Federal and state—currently payable	58,396	83,100
Federal and state—deferred	241,769	41,000
Canadian—currently payable	21,620	5,580
	321,785	129,680
Net earnings before extraordinary item	377,331	161,616
Extraordinary item—Federal income tax reduction from carryforward of prior years' operating loss	10,700	7,000
Net earnings	$ 388,031	168,616
Per share of common stock (note 7):		
Net earnings before extraordinary item	0.50	0.24
Extraordinary item	0.01	0.01
Net earnings	$ 0.51	0.25

See accompanying notes to consolidated financial statements.

Consolidated Statement of Retained Earnings

Year ended August 31, 1968, *with comparative figures for 1967 (note 1)*

	1968	1967
Balance at beginning of year, as previously reported	$ 55,944	(9,154)
Retroactive adjustment in connection with stock split	(24,600)	—
Retroactive adjustment in connection with poolings of interests	(6,496)	—
Retained earnings arising from acquisitions recorded as poolings of interests	90,797	7,279
Balance at beginning of year, as restated	115,645	(1,875)
Add—net earnings for the year	388,031	168,616
	503,676	166,741
Deduct:		
Dividend	—	20,000
Dividends paid by pooled company prior to date of pooling	105	—
Transfer to common stock in connection with stock split (note 7)	—	24,600
Transfer to common stock in connection with poolings of interests (note 2)	—	6,496
	105	51,096
Balance at end of year	$503,571	115,645

See accompanying notes to consolidated financial statements.

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National Student Marketing Corporation and Subsidiaries

Consolidated Statement of Additional Paid-in Capital

Year ended August 31, 1968, *with comparative figures for 1967 (note 1)*

	1968	1967
Balance at beginning of year, as previously reported	$ 1,750	750
Retroactive transfer to common stock in connection with stock split (note 7)	(1,750)	–
Additional paid-in capital arising from acquisitions recorded as poolings of interests (note 2)	182,416	–
Balance at beginning of year, as restated	182,416	750
Add:		
Excess of par value of common stock of companies acquired over the par value of common stock issued therefor (note 2)	1	182,416
Transfer from common stock in connection with pooling of subsidiary	–	1,000
Excess of net proceeds from sale of common stock over par value thereof	1,182,600	–
Excess of market value over par value of common stock issued to acquire trademark	210,780	–
Excess of market value over par value of common stock issued to employees	23,136	–
Donation of common stock by stockholder (note 7)	3,933	–
	1,602,866	184,166
Deduct:		
Transfer to common stock in connection with stock split (note 7)	–	1,750
Expenses in connection with mergers	101,445	–
	101,445	1,750
Balance at end of year	$1,501,421	182,416

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

August 31, 1968

(1) Basis of Presentation

The financial statements include the accounts of the company and all subsidiaries. All material intercompany accounts and transactions have been eliminated. The accounts of the company's Canadian subsidiary, Collegiate Advertising Ltd., have been converted at appropriate U.S. dollar equivalents. Collegiate formed a subsidiary in May, 1968, which was not yet operative as of August 31, 1968. The investment therein is carried at cost in the accompanying financial statements.

Besides marketing products and services for other corporations, the company markets its own products and services. Along with revenues from its proprietary items, the company receives commissions and fees for services rendered to these clients. The "gross volume of services and products" includes revenues from the company's products and services as well as the gross sales value of products and services sold for its clients.

The figures for 1967 shown in the accompanying consolidated financial statements include retroactive adjustments for acquisitions treated as poolings of interests described in note 2, and are shown for comparative purposes only.

(2) Businesses Acquired

The following businesses were acquired during the year ended August 31, 1968:

(a) Compujob, Inc., was acquired on August 22, 1968, by issuance of 2,000 shares of the company's stock in exchange for all the outstanding stock of Compujob, Inc. Additional shares of the company's common stock will be issued to the former stockholders of Compujob, Inc., for five consecutive fiscal years commencing with the fiscal year ending August 31, 1969, determined annually by dividing 25 per cent of the net earnings before taxes of Compujob, Inc., by the average market price of the company's common stock during the preceding month of February.

(b) On January 22, 1968, the company acquired Collegiate Advertising Ltd., by the issuance of 130,000 shares of common stock in exchange for all the outstanding stock of Collegiate.

(c) New England Subscription Service, Inc., was acquired on January 9, 1968, by the issuance of 6,667 shares of the company's common stock in exchange for all outstanding shares of the acquired company.

(d) The company issued 60,000 shares of its common stock on July 25, 1968, in exchange for all the outstanding stock of Shaffer Enterprises, Inc.

Subsequent to August 31, 1968, the following businesses were acquired (in addition to the purchases described in notes 9 and 10):

(e) On October 9, 1968, the company issued 15,000 shares of common stock in exchange for all the outstanding stock of Lewis Brothers Ceramics, Inc., and subsidiaries. Additional shares of the company's common stock are to be issued in 1969 and 1970 to the former stockholders of Lewis Brothers to the extent of 10 per cent of the net earnings of the acquired company in excess of $33,000 for each year. The value of the shares to be issued for the purpose of this calculation will be based on the average closing bid price of the company's common stock for eighty trading days ending November 15 of each year.

(f) The company issued 10,000 shares of common stock on November 13, 1968, in exchange for all the outstanding stock of Institutional Directories, Inc.

All the acquisitions described above were treated as poolings of interests and appropriate retroactive effect has been given in the accompanying consolidated financial statements. The inclusion on a retroactive basis in the consolidated statement of earnings for the year 1968 of the companies acquired subsequent to August 31, 1968, resulted in additional net earnings of $75,081.

(3) Contracts in Progress

During the year 1968 the company's volume of business on fixed fee type arrangements increased substantially. This business involves employees of the company developing over-all marketing and/or advertising programs for clients and/or prospective

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clients. The major portion of the work done by the company involves determination of the client's requirements and proposal by the company of an overall program. The eventual implementation of the agreed-upon program is carried out by representatives and third parties, generally on a fixed commission or charge per piece basis. Owing to the nature of this activity, management believes that income is best matched against costs directly connected with the production of this income by recording the estimated gross profit based on the percentage of time incurred to the total estimated time to be incurred by the employees in development of the over-all program for the client. Accordingly, all such programs for which a client commitment was considered to exist as of August 31, 1968, have been accounted for on this basis. Costs related to development of programs for which no client commitment existed as of August 31, 1968, have been charged to expenses.

(4) Deferred Costs

Due to the nature of its business the company has adopted the following policies relating to deferred costs.

(a) Unamortized cost of prepared sales programs:
The company's business is seasonal and coincides with the school year. Expenditures are incurred for printing, layout, and mailing preparatory to the commencement of various sales programs, most of which commence in the fall of the year and carry over to the spring.
The company follows the practice of deferring these costs and amortizing them over the periods in which applicable income is derived. The amortization periods commence with the various sales campaigns and costs are written off over the lives of the programs or a maximum of twelve months, whichever period is less.

(b) Unamortized list acquisition costs:
The company's name list acquisition costs are deferred at the time of acquisition and amortized over a period of approximately thirty months beginning in the year of acquisition. That portion of unamortized list acquisition costs at August 31, 1968, which will be amortized during the succeeding year has been classified as a current asset.

For income-tax purposes the company deducts the above described costs as incurred and accounts for the applicable deferred taxes in its accounts and financial statements.

(5) Notes Payable and Long-Term Debt

Notes payable and long-term debt at August 31, 1968, aggregating $253,469, are summarized as follows:

	Due within one year	*Due after one year*
7% unsecured notes payable to bank, due November 15, 1968	$115,000	—
Notes payable to bank, secured by trade accounts receivable in amount of $5,000	4,600	—
Installment notes, secured by automotive equipment, payable in monthly installments to September, 1970	6,453	4,147
7% note payable to bank, secured by the master list of names of Shaffer Enterprises, Inc., payable $3,000 per month to March, 1970	36,000	21,000
7% note payable to bank, secured by machinery and equipment, payable in monthly installments to July 31, 1970	10,140	9,324
7% note payable to bank, secured by machinery and equipment, payable in monthly installments to February 26, 1971	1,944	3,077
Conditional sales contract payable in monthly installments to June, 1973	1,352	2,432
12% unsecured notes payable on demand	23,000	—
7% unsecured note payable on demand	15,000	—
	$213,489	39,980

(6) Stock Options

Under the terms of a qualified stock option plan, 100,000 shares of common stock have been reserved for issuance to employees. The options, granted at fair market value on date of grant, expire five years from the date of issuance and may not be exercised prior to two years from such date. Options dated from February 29, 1968, to August 22, 1968, have been granted to employees to purchase 79,175 shares of common stock at prices ranging from $6 per share to $50 per share.

In connection with the acquisition of New England Subscription Service, Inc., the company granted options to purchase 5,000 shares of common stock at $6 per share. The options are exercisable at any time and expire January 1, 1972.

Three separate agreements have been entered into by the company with five sales representatives whereby options will be granted to purchase a maximum of 12,999 shares of common stock at prices ranging from $1 to market price at date of issuance. The amount of options to be granted will be based on the sales level attained by the five sales representatives for the fiscal years ending December 31, 1968, March 31, 1969, and June 30, 1969 and 1970.

(7) Common Stock, Earnings per Share, and Retained Earnings

The company is committed to issue common stock in connection with business acquisitions, stock option plans, and other agreements as described in notes 2 and 6.

In April, 1968, the company registered 200,000 shares of its common stock with the Securities and Exchange Commission. In connection with the registration, effective January 2, 1968, the authorized capital stock was increased to 1,500,000 shares of common stock and the ten shares of $100 par value common stock outstanding was split into 547,000 shares of $.05 par value common stock. Concurrently therewith, $24,600 was transferred from retained earnings and $1,750 was transferred from additional paid-in capital to capital stock. Subsequent thereto, a stockholder donated 78,667 shares of common stock to the company which was accounted for as donated treasury shares at par value ($3,933). Retroactive treatment to August 31, 1967, was given to the stock split in the accompanying consolidated financial statements.

Earnings per share of common stock shown in the consolidated statement of earnings have been computed on the basis of the average number of shares outstanding for 1968 and 1967, which amounted to 754,000 and 704,000 shares, respectively, after giving effect to the 54,700 for 1 stock split. For such purpose, the 5,000 shares issuable under an option outstanding in connection with the acquisition of New England Subscription Service, Inc. (see note 6) were considered outstanding for the entire year. Assuming exercise of the options granted under the qualified stock option plan (note 6) no material effect would result in the calculation of earnings per share.

In accordance with the laws of the District of Columbia, approximately $352,000 of retained earnings arising from acquisitions recorded as poolings of interests are restricted as to payment of dividends.

(8) Depreciation and Amortization

Depreciation and amortization expense of $57,836 and $29,417 for 1968 and 1967 respectively are included in the cost of sales and selling, general and administrative expenses. Depreciation and amortization have been computed by the straight line and accelerated methods over the following estimated useful lives:

Machinery and equipment	3-10 years
Automotive equipment	3-5 years
Furniture and fixtures	3-10 years
Leasehold improvements	6 years

(9) Commitments

The activities of the company are conducted in leased facilities. The major leases expire in 1970, 1971, 1973, and 1975, requiring approximate monthly rentals of $2,148, $3,000, $6,700, and $2,500, respectively.

In January, 1968, the company entered into an agreement with a retail store management firm for the purpose of operating retail stores to sell various products in the college market. Each store will be organized as a corporation in which the company will own all of the common stock and the management firm will own all of the preference stock. The management firm is entitled to thirty-five per cent of the cumulative net profit after taxes as preference stock dividends and an annual management fee of $1,000 per store plus three per cent of net sales of each store. The management contract may be canceled with a minimum of one year's prior notice. The ownership agreement continues until April 30, 1976, followed by six consecutive five-year periods with the right of termination with two years' prior notice, by either party at April 30, 1976, or the end of each renewal period. The first store, Norman Oklahoma Retailer, Inc., was opened during September, 1968, at which time the company provided $25,000 for working capital.

Also, on August 15, 1968, the company entered into an agreement to acquire all of the outstanding stock of a corporation in exchange for 33,000 shares of the company's stock. The acquisition is contingent upon the net earnings of the corporation.

(10) Subsequent Events

In addition to the acquisitions described in note 2, the company acquired, on September 17, 1968, 75 per cent of the outstanding capital stock of National Manpower Register, Inc., and notes receivable in the amount of $70,000. In payment thereof the company issued two 7 per cent promissory notes in the amount of $112,500 each payable September 17, 1969 and 1970, and 1,260 shares of its authorized unissued common stock.

On October 21, 1968, the company sold by private placement 15,000 shares of its authorized and unissued common stock for $563,050. Capital stock was credited for $750 and $562,300 was credited to additional paid-in capital.

Opinion of Independent Accountants

Washington, D.C.

The Board of Directors and Stockholders
National Student Marketing Corporation:

We have examined the consolidated balance sheet of National Student Marketing Corporation and subsidiaries as of August 31, 1968, and the related statements of earnings, retained earnings and additional paid-in capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of earnings, retained earnings and additional paid-in capital present fairly the consolidated financial position of National Student Marketing Corporation and subsidiaries at August 31, 1968, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year in all material respects.

Peat, Marwick, Mitchell & Co.

November 14, 1968

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Board of Directors

Cortes G. Randell*
Chairman and Secretary

Cortes W. Randell*
President and Treasurer

Frank G. Dickey, Ph.D.
Executive Director, National Commission on Accrediting

Donald A. Fergusson*
Executive Vice President
President, Collegiate Advertising Ltd.

Robert A. Fergusson
Vice President
President, Collegiate Advertising Inc.

James F. Joy*
W.E. Hutton & Co.

Glen Shaffer
President, Shaffer Enterprises, Inc.

*Member of Executive Committee

Officers

Cortes W. Randell
President

Donald A. Fergusson
Executive Vice President

Dennis Kelly
Vice President, Director of Media Services

Robert A. Fergusson
Vice President, Director of Operations

Ronald W. Michaels
Vice President, Director of Marketing

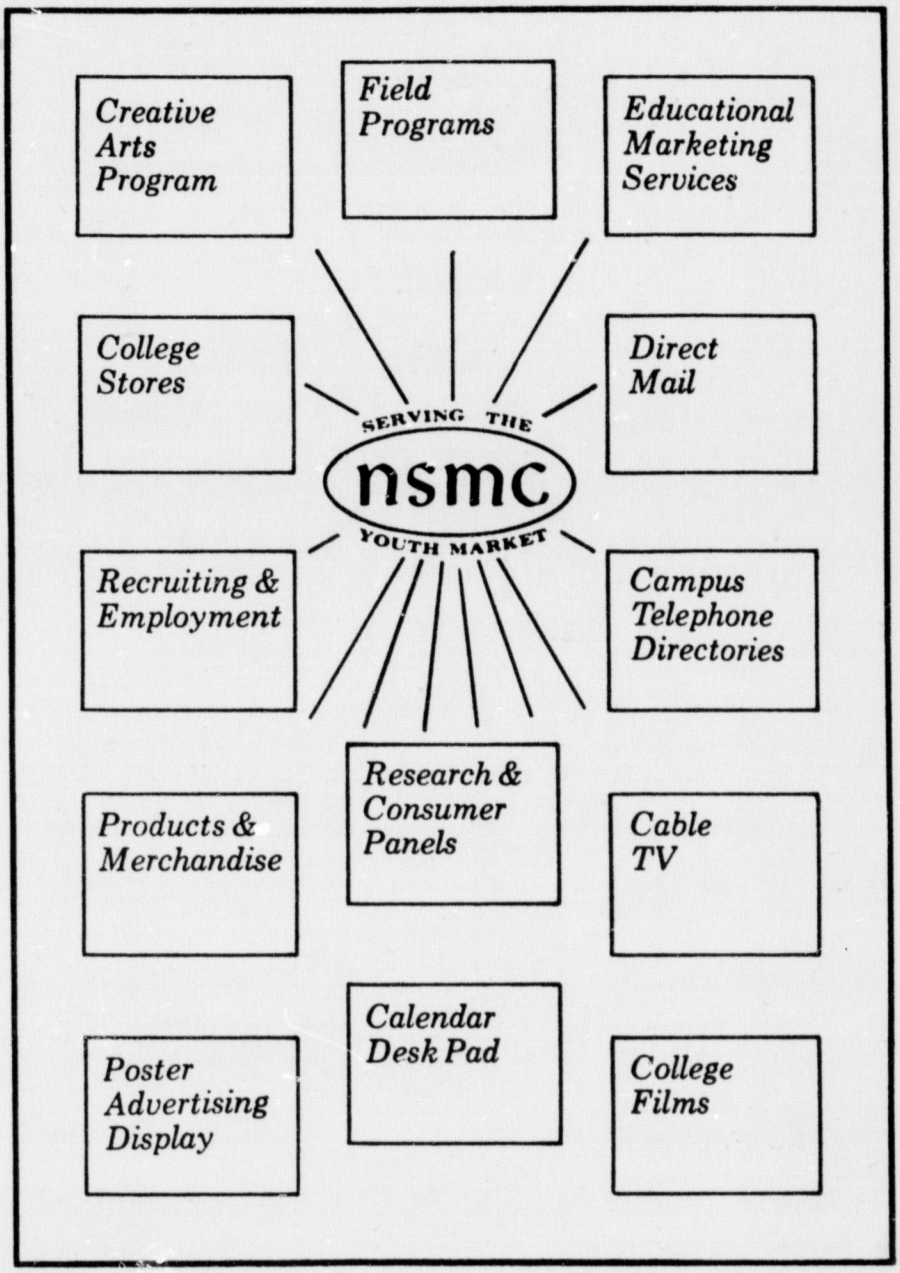
Douglas R. Garriock
Vice President, Director of Canadian Operations

Douglas Garnett
Vice President, Corporate Planning and Administration

Bernard Ganis
Director, Direct Mail Advertising Service

George DeWitt Goodrich
Director, Personnel Administration

Bernard Kurek
Comptroller



Executive Offices

1100 Connecticut Avenue, N.W.
Washington, D.C. 20036

Auditors

Peat, Marwick, Mitchell & Co.
Washington, D.C.

Transfer Agent

Riggs National Bank
Washington, D.C.

Principal Offices

CALIFORNIA: Los Angeles, Oakland, San Francisco, Sherman Oaks
ILLINOIS: Chicago
MASSACHUSETTS: Boston, Newton
MICHIGAN: Detroit
MISSOURI: Kansas City, St. Louis
NEW YORK: New York, Yonkers
OKLAHOMA: Norman
TEXAS: Lubbock

CANADA

BRITISH COLUMBIA: Vancouver
ONTARIO: Toronto

The annual meeting of National Student Marketing Corporation will be held on Monday, December 16, 1968, at 10:00 a.m., Eastern Standard Time, at the Washington Hilton, 1919 Connecticut Avenue, N.W., Washington, D.C.

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Printed in U.S.A.

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GOVERNMENT'S EXHIBIT 7

MEMO FROM KUREK TO ACCOUNT EXECUTIVES (12/10/68)

nsmc MEMORANDUM

FN000589

FROM: Bernie J. Kurek
TO: All National Student Marketing Corporation Account Executives
DATE: December 10, 1968

On December 9, 1968, a meeting was held with Tony Natelli and Joseph Scansaroli, both of Peat, Marwick & Mitchell Company, Cortes Randell, Don Fergusson, Rob Fergusson, John Buck, John Davies, Alan Mackenzie and myself. The purpose of the meeting was to discuss and review the uniqueness of National Student Marketing Corporation's accounting, particularly in the revenue and contract areas. They also stated that by August 31, 1969, they wanted all contracts or commitments to be firm enough for them to be able to send written confirmations to the clients. They also wanted a more complete basis for estimating the percentage of the contract time that has been completed. In order to accomplish this the following forms have been revised or created. An Account Executive Time Log has been initiated so that account executives can maintain a log of the time spent on various clients in which they are working on contracts and sent to the Controller weekly. We have also revised the form that we used on August 31, to get information on a client's program so that the estimated costs can be projected and estimated profits predicted. This is also to be forwarded to Controller on the date of any commitment.

It is of upmost importance that these forms be used for the purposes for which they have been created in order for National Student Marketing Corporation to be able to book revenues in accordance with the policies that they were booked on August 31, 1968.

BJK:dr

E 60

Government's Exhibit 7

FN000691

NATIONAL STUDENT MARKETING CORPORATION

Account Exec Time Log

Prepared by _____

Office _____ Week ending Saturday _____

Time in hours

Client	Program	M	T	W	T	F	S	TOTAL

E 61

Government's Exhibit 7

ACCOUNT EXECUTIVE ORIGINAL STATUS REPORT TO ACCOUNTING

FN000592 , 19__

Program: _____

Client's Name: _____

Client's Address: _____

_____

Contracting Officer's Name: _____

Title: _____

Advertising Agency: _____

Description of Program: _____

_____

_____

_____

Program to take place _____
Period: (month, season, etc.)

NSMC Gross Revenue $ _____

Client's Commitment:

_____ Verbal* _____ Program Commitment Letter (attached)

_____ Contract Signed (attached)

*Contract or Program Commitment Letter _____ will be signed by _____

Estimated time to complete sale: _____ Hours.

Signed _____
Account Executive

FORWARD TO CONTROLLER ON DATE OF COMMITMENT

Form A-21

E 62

Government's Exhibit 7

FN000693

NATIONAL STUDENT MARKETING CORPORATION

Account Executive Monthly Status Report to Accounting

Program: _____

Client: _____

Change in Program Description since last report: _____

_____

_____

Change in Time Schedule of Program since last report: _____

_____

Change in Estimated Gross Revenue since last report: _____

_____

Estimated time by Account Executive to complete Program _____ Hours

_____ _____

Date Account Executive

Account Executive will complete the above information on a monthly basis on all Clients for which NSMC is currently conducting a Program. If there has been no change since the last report please indicate "no change". This report must be received by Accounting no later than the 10th of the month following the end of the reporting month.

Form A-22

E 63

Government's Exhibit 7

NATIONAL STUDENT MARKETING CORPORATION
Production Manager's Monthly Budget Report to Accounting

FN00063.1

Program:

Client:

Estimated Direct Costs	Prior Month	Current Month	Variance
Printing			
Art & Layout			
Postage & Shipping			
Distribution			
Order Processing			
Product Costs			
Travel			
Storage			
Professional Services			
Entertainment			
Other (Identify)			

Explanation of variances reported above.

Date

Production Manager

The above information will be completed on a monthly basis on all clients for which N.S.M.C. is currently conducting a program. If there has been no change from the last report please indicate "no change". This report must be received by Accounting no later than the tenth of the month following the end of the reporting month.

Form A-24

E 64

Government's Exhibit 7

NATIONAL STUDENT MARKETING CORPORATION

Estimated Costs of Program

Program (1) _____

Client (1) _____

Type of Program (2) _____

Costs to be borne by (2)
(Place check mark in appropriate column)

Direct Costs	Amount of Budget (A)	NSMC	Client
Printing			
Art & Layout			
Postage & Shipping			
Distribution			
Orders Processing			
Product Costs			
Travel			
Storage			
Professional Services			
Entertainment			
Other (Identify) _____			
Total			

1. Information provided by Account Executive

_____ Date

_____ Account Executive

2. Information provided by Production Manager

_____ Date

_____ Production Manager

The above information to be provided by the Account Executive will be submitted to accounting along with the Account Executive's Original Status Report to Accounting. Accounting will then submit form to the production manager who will complete form and return to Accounting.

Form A-23

E 65

GOVERNMENT'S EXHIBIT 9

AGENDA FOR 3/1/69 MEETING BETWEEN KUREK AND RANDELL

6x9

=0 000375

March 1, 1969

Meetings with C. W. Randell

E 66

Government's Exhibit 9

AGENDA

Meeting with Cortes, March 1, 1969, 10:30 AM

---

1. Approval of material in folder.

2. Review February 27 Memo - Ordering Airline Tickets.

3. Review February 27 Memo - Bernie Ganis' Programs.

4. Review February 26 Memo - New England Travel - Accounting Procedures.

5. Review February 25 Memo - January anaysis of NSMC activity.

6. Review NSMC cash situation:

   a. Schedule A1 - Lines of Credit.

   b. Schedule A2 - Summary of receipts and disbursements - September 1, 1968 thru February 26, 1969.

   c. Schedule A3 - Cash forecast thru August 31, 1969

7. Schedule B - Questionable accounts receivable.

8. Schedule C - Schedule of Profits.

9. Schedule D - Common stock outstanding.

E 67

Government's Exhibit 9

B.J. Kurek
C.W. Randell
February 27, 1969

re: Ordering Airline Tickets

Attached are copies of all correspondence incidental to ordering airline tickets per our conversation of Saturday, February 15.

BJK:ja

E 68

Government's Exhibit 9

YOUTH MARKET

February 17, 1969

Mr. Ronald Klapat
World Cultural Travel, Inc.
1100 Conn. Ave., N.W. Suite 450
Washington, D.C. 20036

Dear Mr. Klapat:

We have instituted a new policy at National Student Marketing Corp. incidental to ordering airline tickets. As a result of it, the only person authorized by NSMC to order from World Cultural Travel, Inc. is Mrs. Lacy Shepherd. NSMC will not be responsible for orders placed by someone other than her and accepted by World Cultural Travel, Inc.

Respectfully,

Bernard J. Kurek

Bernard J. Kurek
Vice President of Finance

BJK:mw

cc:CWR

National Student Marketing Corporation
1100 Connecticut Avenue, N.W. • Washington, D.C. 20036 • Telephone 202 • 659-3700

E 69

Government's Exhibit 9

John Buck
George Goodrich
February 19, 1969

re: Airline Ticket Information

Would you please see that the enclosed memo is circulated in the New York office. Since Marilyn is handling the payables and other information that is transmitted to us here in Washington, I have taken the liberty of designating her the responsible person for handling ticket information.

If Marilyn will obtain the information required by the attached form from New York personnel and call Lacy, Lacy will call World Cultural Travel and obtain the tickets.

If you have any questions, please give me a call.

JB:ja

E 70

Government's Exhibit 9

C.W. Randell
New York Staff
February 19, 1969

re: Airline Tickets

Effective immediately all airplane reservations for which the Company is to be billed must be placed by Marilyn Lawson thru World Cultural Travel. The individual requesting the reservation will be responsible for providing Marilyn with the following information:

1. Airlines
2. Time of flight
3. Destination
4. Day leaving
5. Day returning

World Cultural Travel has been notified that NSMC will not be responsible for reservations placed by anyone other than Marilyn.

CW:ja

E 71

Government's Exhibit 9

NSMC MEMORANDUM

FROM: C. W. Randell
TO: Washington Staff
DATE: February 19, 1969

re: Airline Tickets

Effective immediately all airplane reservations for which the Company is to be billed must be placed by Lacy Shepard thru World Cultural Travel. The individual requesting the reservation will be responsible for providing Lacy with the following information:

1. Airlines
2. Time of flight
3. Destination
4. Day leaving
5. Day returning

World Cultural Travel has been notified that NSMC will not be responsible for reservations placed by anyone other than Lacy.

CWR:ja

E 72

Government's Exhibit 9

REQUEST FOR AIRLINE TICKET

Person requesting reservation: _____

Airline: _____

Time of flight: _____

Destination: _____

Day leaving: _____

Day returning: _____

Trip authorized by: _____

All above information must be completed when requesting reservations. If day returning is unknown, so indicate.

CONFIRMATION OF RESERVATION

Reservation confirmed as requested except:

_____

_____

_____

Date ticket received: _____

Date ticket delivered to employee: _____

Purpose & activities
people going & persons
being visited.

FORM A

E 73

Government's Exhibit 9

3/1/amt cy

Bernard J. Kurek
Cortes W. Randell
February 27, 1969

re: Bernie Ganis' Programs

This morning Bernie phoned requesting that we pay I.S. Berlin:

FOR	DATE	AMOUNT
High school boys mailing	3-1	$ 1,800
High school girls mailing	3-14	60,000
College boys mailing	3-21	16,000
College girls mailing	3-26	50,000
		$127,800

Used NO

I learned that the following were participants in the mailing (he is to send complete information today indicating whether high school boys or girls, college boys or girls and amounts):

	PARTICIPANT	Type of Program FIXED FEE	PI
1.	Campana	X	
2.	Mitchem	X	
3.	Chattem	X	
4.	Haines	X	
5.	Chevrolet	X	
6.	Readers' Digest	X	
7.	Clairol		X
8.	American Airlines		X
9.	Poster Prints		X
10.	NESI		X
11.	Lentheric		X
12.	Records Unlimited		X
13.	Film Enterprise	X	
14.	AIFS	C.W. Randell	
15.	News Magazines	Rob Fergusson	
16.	News Magazines	Rob Fergusson	
17.	Franklin Square		X
18.	Famous Schools		X

OK NO

E 74

Government's Exhibit 9

MEMO to:
C. W. Randell - 2 - 2/27/69

As the discussion pursued, I questioned Bernie about contract commitments on our books which I wanted to bill in order to obtain our money to cover some of the postage etc. At this time I was told that the following were no good:

Client	Commitment	Booked 8-31-68 Sales	Cost	Profit	Sale Booked 11-30-68 Sales	Cost	Profit
Cossard	$56,250	$53,775	$28,805	$24,970			
Chicken Delight	50,625	50,625	26,312	24,313			
Chesebrough Ponds	30,000	28,031	16,875	11,156			
Dupont	70,000	64,425	42,125	22,300			
Faberge	56,250	53,775	28,806	24,970			
Remington	42,747				$29,923	$11,813	$18,110
	$305,872	$250,631	$142,922	$107,709	$29,923	$11,813	$18,110

E 75

Government's Exhibit 9

Bernard J. Kurek
Cortes W. Randell
February 26, 1969

In Re: New England Travel Accounting Procedures

Arnold Burman has stated that students wishing to travel can register with a $100.00 deposit of which $75.00 is refundable up to February 28. As of March 1, nothing is refundable and the remaining unpaid balance is due.

For accounting purposes, all expenses and costs incurred for the first nine months of the year will be deferred and written off in the last quarter when New England Travel has fulfilled its obligation. All contracts will be booked as sales then.

So for the first nine months, there will be no income or loss for New England Travel. Their contribution to our financial statements will be a balance sheet during this period.

We do however have to use the 600,000 shares issued to acquire this company in calculating the earnings per share on our statements all year long.

BJK:dr

E 76

Government's Exhibit 9

NSMC MEMORANDUM

FROM Bernard J. Kurek
TO Cortes W. Randell
DATE February 25, 1969

re: January analysis of NSMC activity

Gross sales	$77,825
Cost of sales (incl. commissions)	51,463
Gross profit on sale	26,362
General and administrative expenses	177,660
Net loss	$151,298

General and administrative expenses averaged $124,000 per my report of February 17. January expenses were up $33,000 from this average. The major increase was that of Salaries which were up $37,000. This was caused by an increase from 74 employees on the payroll in December to 98 in January.

Continual effort to keep our accounts receivable to a minimum is being exerted. The following is a summary as of January 31, 1969, which I am not satisfied with, and this has been brought to my staff's attention.

		%
Current	$77,300	16.4
30 days outstanding	181,500	38.4
60 days outstanding	61,100	12.9
90 days outstanding	152,200	32.3
Total	$472,100	100.0

An Account Executives' Status Report was prepared on all contracts in progress and forwarded to me by Bob Bushnell. Exhibit A summarizes what is on our books and should be taken off as soon as possible. In addition to this there was another $600,000 of gross commitments reported as bad which I understand is being worked on. Bob Bushnell knows this must be sold and a contract or commitment letter signed by the client must be in our files by August 31, 1969, or I am sure Peat, Marwick, Mitchell & Co. will write it off. This accounted for $179,000 in gross profit on our August 31, 1968, statements.

E 77

Government's Exhibit 9

I would like to work with you in devising a schedule for deleting portions of the bad accounts per Schedule A starting with our February 28, 1969, reports.

Attached is a copy of my January 1 memo to you and attachments. To date Lewis Bros and Shaffer Enterprises have sent theirs in.

I have also attached a copy of the memo sent out on February 14 following up our December 31 letter. This is what we are consistently having to do to get information.

To keep you informed, we are constantly looking for accounting help, particularly the Budgets Director and Internal Auditor.

BJK:ja

cc: J. Buck

E 78

Government's Exhibit 9

EXHIBIT A

	Commitment	Booked Aug. 31, 1968 Sales	Cost	Profit	Booked Nov. 30, 1968 Sales	Cost	Profit
Siadek							
Shick	$30,000	$30,000	$5,000	$25,000			
Syntex-Collage	55,000	50,309	23,725	26,584			
" -Bonanza	55,000	50,309	23,725	26,584			
" -P.W.	28,000	21,960	16,070	5,890			
Barnes Hind	28,000				$22,400	$10,056	$13,344
Carnation	14,000				11,200	5,120	6,080
	210,000	152,578	68,520	84,058	33,600	15,176	18,424
Kelly							
Eastern	4,850	2,206	100	2,106			
"	1,875	1,875	1,875	-0-			
"	4,350	4,350	4,350	-0-			
"	13,440	13,440	7,870	5,570			
"	13,440	13,440	7,870	5,570			
	37,955	35,311	22,065	13,246			
Michaels							
Ban Deodorant	19,500	19,500	10,000	9,500			
Stivers							
Pontiac	5,000				4,500	3,461	1,039
Demmon							
Blue Bell	2,000				1,800	540	1,260
	$274,455	$207,389	$100,585	$106,804	$39,900	$19,177	$20,723

COMBINED

Commitments	Sales	Cost	Profit
$274,455	$247,289	$119,762	$127,527

E 79

Government's Exhibit 9

Mr. Gordon Adair
Collegiate Advertising Ltd.
1430 Pine
777 Hornby Street
Vancouver 1, B.C.
Canada

February 16, 1969

Dear Gordon:

On December 31, 1968 I requested that budget and cash flow information for the period March 1 through August 31, 1970 be submitted to this office by February 1, 1970. To date this information has not been received. Regarding the additional work load due to year-end activity, as you know I have not pressured you for these information. We are now in a position where it is necessary for these schedules to be completed and in Washington by February 28, 1970.

Very truly yours,

John D. Ford

JDF:mv

E 80

Government's Exhibit 9

Budget Request mailed to:

Mr. James O'Kelley, Assistant Director, Inc.
Mr. Stanford B. Levin, Levin Bros. Cleaners, Inc.
Mr. Sergei Lied, National Vanguard Register, Inc.
Mr. Fred Weightbanger, Lilyfly Collegiate, Inc.
Mr. Jake Price, Assistant Student Manager
Mr. Murray Fox, National Schlabbia Act Co, Inc.
Mr. Dale Adler, Collegiate Advertising Ltd

E 81

Government's Exhibit 9

December 31, 1968

Mr. John Pirie
International Student Marketing
5 Grosvenor St.
London W 1, England

Dear Mr. Pirie:

In an attempt to improve management efficiency and plan only plan the Corporation's financial policies it is necessary that all subsidiaries prepare an estimated budget and projected cash flow for the remainder of the current fiscal year. In the future an annual budget and cash flow will be required by August 1, for the fiscal year 9/1 thru 8/31. This budget and cash flow will be updated on a quarterly basis with the following reporting schedule adhered to:

Date Required	Period Coverage
2/1/69	3/1/69 - 8/31/69
5/1/69	6/1/69 - 9/31/69 (Updated)
8/1/69	9/1/69 - 3/31/70
11/1/69	12/1/69 - 2/28/70 (Updated)
2/1/70	3/1/70 - 5/31/70 (Updated)
5/1/70	6/1/70 - 8/31/70 (Updated)

I am enclosing a schedule which may be used for reporting the necessary information. Figures may be reported in thousands of dollars if desired.

If you have any questions concerning the completion of the attached schedule kindly advise. Please mail the completed schedule to the attention of the undersigned.

Very truly yours,

John D. Buck
Accounting

JDB:rv

Encl.

E 82

Government's Exhibit 9

ESTIMATED BUDGET AND PROJECTED CASH FLOW
From February 1, Thru July 31, 1969

	9/1/68 thru 2/28/69	March	April	May	Sub Total	June	July	Aug	Total
ross Sales	$								
s Cost of Sales									
Estimated Gross Profit									
elling, General & Admin. Expenses									
Estimated Operating Profit									
lus Miscellaneous Income									
ess Interest Expense and Other Deductions									
Estimated Earnings Before Taxes on Income									
lus:									
(Increase) Decrease in Accounts Receivable, Prepaid Expenses and Deferred Costs									
ess:									
Increase (Decrease) in Accounts Payables, Deferred Income and Accrued Expenses									
NDS PROVIDED (REQUIRED) BY/FOR OPERATIONS									
Funds Applied:									
Capital Expenditures									
Payment of Outstanding Debt									
Other (Describe)									
ASH BALANCE FOR MONTH									
Cash Balance Beginning of Period									
ET FUNDS AVAILABLE									

E 83

Government's Exhibit 9

National Student Marketing Corporation
Lines of Credit
Schedule A1

	Lines		Balance
	Approved	Out	Requirements
Riggs	$200,000	$200,000	$ -
Franklin National	300,000	300,000	60,000
Bank of America			
Working Capital	600,000	450,000	150,000
Campus Pac (1)	1,000,000	-	-
First City National			
Working Capital (2)	1,000,000	-	250,000
Campus Pac (2)	2,000,000	-	400,000
Bank of Montreal (3)	200,000	125,000	-
	5,300,000	1,075,000	860,000

1. No compensating balance required - interest 1% over prime plus .5% loan fee - $5,000. They have stated that they want Franklin National and Irving Trust (NMR $40,000) out.

2. New England Travel to lend us $650,000 compensating balance for FCNB for three or four months.

3. Currently out - Cal, Ltd. $75,000; International Record Corp. $25,000; Thunderbird Shop $25,000.

E 84

Government's Exhibit 9

National Student Marketing Corporation
Cash Analysis
Schedule A2

	Operational Receipts	Disbursements	
		Operations	Special
September, 1968	$222,700	$253,300	$181,000
October	312,200	549,300	112,000
November	304,300	56,800	493,000
December	231,800	344,400	185,000
January, 1969	243,100	307,700	333,000
February	244,200	239,900	342,200
	$1,755,700	$1,543,900	$1,656,300
Monthly average	292,600	257,300	276,100

E 85

Government's Exhibit 9

National Student Marketing Corporation
Cash Forecast
Schedule A3

	Estimated		
	Receipts	Disbursements*	Cash Needed
March, 1969	$ 60,700	$412,000	$351,300
April	230,500	412,000	181,500
May	215,000	446,000	231,000
June	215,000	412,000	197,000
July	215,000	412,000	197,000
August	215,000	412,000	197,000
	$1,156,200	$2,506,000	$1,354,800

*Excluding I. S. Berlin	306,000
Douglas Corp.	41,000
	$1,701,800

Note: I have assumed that 1/2 of the $2,200,000 in Unbilled Receivables can be billed in March and $200,000 is collected per month starting in April.

E 86

Government's Exhibit 9

NATIONAL STUDENT MARKETING CORP.
QUESTIONABLE RECEIVABLES
SCHEDULE B

Miscellaneous Accruals

Consists of entries of a varied nature made, but going back a considerable period of time. No substantial support exists for the entries made. Needs immediate removal from books. $ 920.64

Pace

Cort is the only person who really can shed any light at all on this. $ 4,500.00

Pyramid

Consists of direct costs incidental to Murray Torns' participation in Collage "Pyramid" which we were led to believe would be billed to Torn but apparently NSMC is now supposed to absorb the cost. This calls for further discussion with Cort, but in any event should be immediately removed from receivables. $24,353.61

Chattam

Ganis says no good - Cort says good. $52,593.75

American Union of Students

This contract was entered into for NSMC by Allan Gordon. In October Ron Michaels was contacted to determine if collection could be made---no results of any type were received. Subsequent attempts were made: contacting the client, questioning Larry Tucker, querying Joel Berstein, and verifying the receivable---all efforts produced non descript and negative results. This is a bad debt. Needs immediate removal from the books. $ 672.00

Kays Sandwich Shop

Larry Tucker verbally reduced amount of original invoice by this amount per discussion with the client. Needs immediate removal from books. $ 364.10

Operation Match

Amount was accrued by an adjusting Journal Entry November 30, 1967 for computer costs due from Operation Match. We are unable to back up this entry and are quite convinced that it is uncollectible. This is a bad debt. Needs immediate removal from the books. $ 1,200.00

American Airlines

This amount is the result of incorrect accruals prior to FY 1969. The method used to accrue income in periods prior to September 1, 1968 was less than accurate and extensive analysis has not revealed precisely when the errors occurred. None of this amount is owed to NSMC. Needs immediate removal. $12,160.13

Questionable Receivables
Schedule B
Page Two

E 87

Government's Exhibit 9

Franklin Square

This amount represents NSMC's account on the Spring Mailing 67 & 68 and Fall Mailing 67. These were joint venture programs in which F.S. did the mailing and the fulfillment. NSMC accrual was based on a 24% fixed and direct cash estimate. At the completion of the program the amount of fixed and direct costs amounted to approximately 90%. Franklin Square reflects a balance due of ~~$32,463.47 is necessary.~~ $4,741.39. Therefore an adjustment of 32,463.47 is necessary. We have been working with F.S. personnel since November trying to get them to send us invoices which will support the direct and fixed expenses. To-date, only the fixed expenses have been adequately supported.

A quick analysis of the program is as follows:

Total Gross Income		$185,858.00
Direct Expenses	$136,573.00	
Fixed Expenses	36,865.00	
Interest	5,125.00	
		178,563.00
Net Profit		7,295.00
N.S.M.C. share		3,643.00
Plus Special Adjustments		1,098.39
		$ 4,741.39

Total Receivable on Books	$37,204.86	
Total per above	4,741.39	
Adjustment		$32,463.47

Cert to jr counsel

National Student Marketing Corporation
Schedule of Profits
Schedule C

	1968-69			1967-68		
	December	January	Total	December	January	Total
NSMC	($174,000)	($151,000)	($325,000)	$(15,821	$(15,821	$31,642
NESI	(6,354)	532	(5,822)	(	(	
NESS	4,609	1,695	6,304	(267)	(267)	(534)
CAL				3,500	3,500	7,000
Idi	2,328		2,328	7,944		7,944
Lewis Bros.	2,183	2,271	4,454	1,812	(126)	1,686
NMR	(3,434)		(3,434)	-	-	
NSL	(2,016)		(2,016)	4,173		4,173
Shaffer	3,694		3,694	(1,174)		(1,174)
Compujob	1,586	(13,967)	(12,381)	-	-	
NET						
Colad						
	(171,404)	(160,469)	(331,873)	31,809	18,928	50,737

Government's Exhibit 9
FTC 88

E 89

Government's Exhibit 9

National Student Marketing Corporation
Common Stock Outstanding
Schedule D

Original Issue				547,000
Private Placement - February '68				10,000
Private Placement - August '68				10,000
Public Offering - April '68				150,000
Scientific Matching				3,600
Field Men - Options				1,775
Collegiate Advertising				130,000
New England Subscription Service				6,667
Shaffer Enterprises				60,000
Lewis Bros. Ceramics				15,000
Intercollegiate Sales				2,500
Institutional Directories				10,500
Compujob				2,000
Outstanding 8-31-68				949,042
				2
Outstanding after 2:1 split				1,898,084
National Scholastic List Co.				66,000
New England Travel				600,000
National Manpower Register	- Oct.	2,560		
Private Placement	- Oct.	30,000		
W.E. Hutton	- Oct.	2,000	34,560	23,040
Colad	- Feb.	121,000		
Directors meeting	- Feb.			
W.E. Hutton		11,000		
G. Goodrich		3,000		
CMI		40,000		
D. Natale		1,000	45,000	7,500
				2,594,624
Treasury Stock				(130,234)
Average outstanding 2-28-69				2,464,390

E 90

Government's Exhibit 9

.00 T

Term Car Savings

18,980.87
660.00
6,000.00
345.60
1,860.00
27,846.47 S
1,303.34 -
26,543.13 T

1383?

E 91

Government's Exhibit 9

nsmc MEMORANDUM

FROM: Bernard J. Kurek
TO: Cortes W. Randell
DATE: February 28, 1969

Inre: Estimated Earning Report as of 2-28-69

Net profit before taxes per 11-30-68 report		$ 403,764
Bad committments: (net profits)		
Per memo of 2-25 - Exhibit A	$127,527	
Per memo of 2-25	179,250	
Per memo of 2-27	125,819	
	432,596	
Loss reported per Schedule C	331,873	
Estimated loss for February	100,000	
Bad debts (conservative)	10,000	(904,469)
Estimated loss		$(500,705)

As can be seen it is a bleak picture, I have taken all items that should be out, in order to show you what the real situation is. Since October when Peat, Marwick, Mitchell & Co. approved the "Committment" theory and our annual report was prepared in accordance, the situation hasn't improved. This theory is fine if what is booked in accordance with it is factual but so much of it hasn't been, so we are adding insult to injury.

I believe the above should be cleaned out of our books and we should stop "deferring" the problem.

Comm. Adv. 8/6661

E 92

GOVERNMENT'S EXHIBIT 10A

SCHEDULE OF PROJECTED PROFITS TAKEN FROM GX 10 ID.

NATIONAL STUDENT MARKETING CORPORATION

Profit Projection

	Nov. 30, '68 1st Qtr.	Feb. 28, '69 2nd Qtr.	1st half	May 31, '69 3rd Qtr.	1st 9 mos.	Aug. 31, '69 4th Qtr.	Year
Sales	$1,173,000	$104,000	$1,277,000	$106,200	$1,383,200	$45,000	$1,428,200
Cost of sales	585,000	52,000	637,000	54,300	691,300	23,100	714,400
Gross profit on sales	588,000	52,000	640,000	51,900	691,900	21,900	713,800
Gen'l & Admin. expense	376,000	447,000	823,000	469,000	1,292,000	504,000	1,796,000
Net profit (loss) before taxes	212,000	(395,000)	(183,000)	(417,100)	(600,100)	(482,100)	(1,082,200)
Provision for taxes	76,000	-	76,000	-			
Net profit (loss) after taxes	$ 136,000	$(395,000)	$ (259,000)	$ (417,100)	$ (600,100)	$(482,100)	$ (1,082,200)
Bad commitments now on books		144,300	144,300	144,300	288,600	144,300	432,900
Bad debts		6,000	6,000	6,000	12,000	7,000	19,000
Commission advance		50,000	50,000	55,000	105,000	55,000	160,000
	$ 136,000	$(595,300)	$(459,300)	$(622,400)	$(1,005,700)	$(683,400)	$ (1,694,100)
Sales needed			$2,118,600	$1,392,800	$3,511,400	$1,516,800	$5,028,200
Cost of sales @ 50%			(1,059,300)	(696,400)	(1,755,700)	(758,400)	(2,514,100)
Absorption of loss			(459,300)	(546,400)	(1,005,700)	(688,400)	(1,694,100)
Profit before tax			600,000	150,000	750,000	70,000	820,000
Tax			300,000	75,000	375,000	35,000	410,000
Profit goal	$ 136,000	$164,000	$300,000	$75,000	$375,000	$35,000	$410,000

EXCERPTS FROM GOVERNMENT'S EXHIBIT 11

NSMC JOURNAL VOUCHERS (NOS. 276-285)

NSMC
Special Journal Entries
April 1969
Sheet 39 of 41

				1	2
1	XX5V 279 Delete Costs on Bad Commitments				
2	Accrued Cost-on Cinf - Dupont		4450	324000	
3	" " " " - Dupont		4450	59000	
4	" " " " - Chicken Delight		4450	26312.00	
5	" " " " - Chesbro Ponds		4450	16875.00	
6	" " " " - Dupont		4450	42125.00	
7	" " " " - Chattem		4450	28805.00	
8	" " " " - Remington		4450	11813.00	
9	" " " " - Ford		4450	6300.00	
10	" " " " - Ford		4450	36000	
11	" " " " - Westinghouse		4450	12307.00	
12	Costs - Dupont	7399-05			169000
13	" - "	7399-05			155000
14	" - Dupont	7399-05			140000
15	" - "	7399-07			450000
16	" - Chicken Delight	7399-05			1000000
17	" - " "	7399-07			1631200
18	" - Chesbro Ponds -	7399-05			600000
19	" - " "	7399-07			108750
20	" - Dupont	7399-05			1400000
21	" - "	7399-07			281250
22	" - Chattem	7399-05			1068000
23	" - "	7399-07			1812500
24	" - Remington	7360-03			761300
25	" - "	7360-05			420000
26	" - Ford	7752-05			315000
27	" - "	7752-03			315000
28	" - Ford	7753-05			180000
29	" - "	7753-03			180000
30	" - Westinghouse	7357-07			1230700
31	To remove from costs				
32	and accrued costs on contracts				
33	in progress, the applicable				
34	amounts as indicated and				
35	pertaining to the deletion of				
36	sales on bad commitment				
37					
38					
39					
40					

Excerpts from Government's Exhibit 11

NSAC

Special Journal Entries

April 1969

Sheet 40 of 41

				1	2	
1	**JV 280 Delete Sales on Bad Committments					1
2	U/B A/R - Dupont	× 2330			✓ 6978.00	2
3	" " - Dupont	× 2330			✓ 8535.00	3
4	" " - Chicken Delight	× 2330			✓ 50625.00	4
5	" " - Chesbro Ponds	× 2330			✓ 28031.00	5
6	" " - Dupont	× 2330			✓ 6442.50	6
7	" " - Chattem	× 2330	✓		✓ 5377.50	7
8	" " - Remington	2330			✓ 29923.00	8
9	" " - Ford	2330			✓ 9000.00	9
10	" " - Ford	2330			✓ 8010.00	10
11	" " - Westinghouse	2330			✓ 16000.00	11
12	Sales - Dupont, Dupont, Chicken Delight,					12
13	Chesbro Ponds, Dupont, Chattem	6399		212369.00 ✓		13
14	Sales - Remington	6360		29923.00		14
15	Sales - Ford	6752		9000.00		15
16	Sales - Ford	6753		8010.00		16
17	Sales - Westinghouse	6357		16000.00		17
18	To remove from sales and					18
19	unbilled accounts receivable					19
20	the amounts of bad comm-					20
21	ittments as indicated.					21
22						22
23						23
24	**JV 281 Adjust Retained Earnings					24
25	U/B A/R - Listerine	2330			7020.00	25
26	Accrued Cost on C in P - Listerine	4450		1755.00		26
27	" " " " - "	4450		3165.00		27
28	Retained Earnings	5960		2100.00		28
29	To charge prior years'					29
30	earnings for bad committment.					30
31						31
32						32
33	**JV 282 Adjust Waldorf-Astoria Sales					33
34	Sales - Waldorf-Astoria	6317		309.00		34
35	Sales - Waldorf-Astoria	6399		954.00		35
36	U/B A/R - Waldorf-Astoria	2330			1263.00	36
37	To adjust Waldorf Astoria					37
38	sales. According to best available					38
39	information Client was unsatisfied,					39
40	therefore, AE ordered the final 1/3 billing cancelled.					40

E 95

Excerpts from Government's Exhibit 11

NSMC

Special Journal Entries

April 1969

Sheet 41 of 41

			1	2
** JV 283	Reclassify Unbilled A/R			
	U/B A/R - Clairol	2330		5678120
	" " - Chesbro-Ponds	2330		912500
	" " - Ban Deodorant	2330		1950000
	Accrued Costs on Cin P - Clairol	4450	4148120	
	" " " " - Chesbro-Ponds	4450	650000	
	" " " " - Ban Deodorant	4450	1000000	
	Differed Federal Income Taxes	4440	1878500	
	To reclassify unbilled accounts receivable.			
** JV 284	Correct Eastern Air Lines Sales			
	Sales - Eastern	6399	353150	
	" - "	6399	100	
	U/B A/R - Eastern	2330		353250
	To correct Eastern Air Lines sales and remove amount of bad commitment from unbilled accounts receivable.			
** JV 285	Correct Eastern Air Lines Costs			
	Accrued Costs on Cin P - Eastern	4450	300000	
	" " " " - Eastern	4450	25300	
	" " " " - Eastern	4450	225000	
	" " " " - Eastern	4450	345000	
	Costs - Eastern	7399-07		300000
	" - "	7399-07		25300
	" - "	7399-07		225000
	" - "	7399-07		345000
	To correct costs on Eastern programs booked as Cin Pat 8/31/68 where a portion of the cost is applicable to the above entry and the balance was included as an accrued cost but apparently previously incurred			
** JV 286	Correct Credits from Voucher Reg.			
	Cash in Bank - Refco Gen	2011	19315	
	Accounts Payable Trade	4405		19315

Correct the Credits from Voucher Register

E 96

GOVERNMENT'S EXHIBIT 12

PONTIAC COMMITMENT LETTER (4/28/69)

PONTIAC MOTOR DIVISION GENERAL MOTORS CORPORATION PONTIAC MICHIGAN 48053

DIRECTOR OF MARKETING

FN000425

April 28, 1969

Mr. Dennis Kelly
National Student Marketing Corporation
Time & Life Building
New York, N.Y. 10020

Dear Mr. Kelly:

This will confirm our recent conversations relative to our plans for use of the services of National Student Marketing Corporation in model year 1970.

You have submitted to us various proposals for directing sales influence toward the student population of the U.S. These proposals in total would require an outlay of approximately $1,900,000.00.

We are now planning to implement student influence proposals that would result in gross billings of $1,200,000.

I will keep you informed as our plans progress.

Best regards,

J.H. Graham

JHG:sn

National Biscuit Marketing Corp.

Trial Balance
8-31-68

W. P. No. 68-8
ACCOUNTANT JL
DATE 5-16-69

		Col. per Books	10-31-68 N.E.T.	11 MONTHS		10-31 Combined	UNAUDITED 9 MOS. N.A.P.		ADJUSTMENTS AND RECLASSIFICATIONS		Final Column		Balance Sheet 11 M.
Net sales:													
Common		5772734	2076642		2528556		1428184	383485	(A) 70200		6099644		5799644
Sales of products		1676772							(B) 677562		5737328		5605766
Cost of sales:													
Common		2182061	2378641							(C) 77200			
Sales of products		660770			2153481		157720	162997		(D) 487512	3481463		3982489
											3137951		3262204
Gross profit		2266399	777091		402268		376464	76588			6180264		4103520
Selling, general and store expenses		1887467	528801		176599		197998	52933			2792853		2350520
Interest and other net													
Earnings before taxes		2416			23669		4081				35150		35150
		447115	248190		202460		269284	27705	67562		1242065		1217850
Taxes:													
Federal & state - currently payable		195396	96918		108137		134000	7478			1037685		997851
deferred		241769								(E) 19760	33118		53019
Canadian		21620									24620		21620
Net before extraordinary items		377581	151272		102323		135284	16472	67562		679462		795760
Extraordinary audit - prior years tax adjustment		19700									19700		19700
Net earnings		357881	151272		102323		135284	16472	67562		659762		776060
Earnings per common share: 3,649,000 shares													
Before extraordinary credit									Per share				
Extraordinary credit									.0073				
Net									.0052				
									.0125				
Ratios of earnings to fixed charges													

Excerpts from Government's Exhibit 13

National Student Marketing Corp.

Adjustments and Eliminations
8-31-68

W. P. No.	68-4
ACCOUNTANT	JS
DATE	5-12-69

		DR	CR
(1)			
Accrued Cost on unbilled contracts		489812	
Deferred income taxes payable		188750	
Unbilled receivables			678562
(see explanation for JE #2)			
(2)			
Service Revenue		678562	
Cost of service revenue			489812
provision for deferred income taxes			188750
Based on subsequent factor, at time Booked to adjust 3 Contracts entered into by Rin Technology Advised (1) Client prior and (2) Board that an effect is the same as a Billing for the year for report purposes.			
(3) *			
Retained Earnings		* 171500	
divesting of Inter Corps			171500
Write off Inter Corps Investment profit value of 80% - result of liquidation of Inter Corps Losses.			
(4) *			
Capital stock of subsidiaries		214662	
Capital stock of NSMC			188770
Additional Paid in Capital			25892
To eliminate stock of subsidiaries per WP 68-6			
	1690141		
* Per detail of RIE			
1968 See 67-2	147350		
1968 additional 68-4	24150		2571
	* 171500		

Excerpts from Government's Exhibit 13

Petroleum Product Marketing Corporation

Agreements and Memoranda
1-31-64

W. P. NO.	64-4-1
ACCOUNTANT	[illegible]
DATE	[illegible]

(5)

Second Cost
Balance
Cost of sales
Unbilled Accounts
To adjust entries contract for Glenstar
adj # 2.

47500
70200

47500

70200
49200
21000

2502

E 100

Excerpts from Government's Exhibit 13

National Student Marketing Corp.

W. P. No.	A
ACCOUNTANT	[illegible]
DATE	5-22-67

IV.2.1

Outline for Review of Interim Unaudited Financial Statements Included in Registration Statement and Subsequent Period To Effective or Closing Date

1. Review minutes of stockholders, directors, and committees. Obtain copies or make excerpts therefrom for our files.
2. Obtain most recent financial statements since date of last audited balance sheet for parent, consolidated, and individual subsidiaries; compare with corresponding period of previous year and with latest audited period; obtain explanation for variances and unusual items.
3. Inquire as to proper cut-offs.
4. Inquire into bases of determining closing inventory, tax provision, doubtful debt, and other reserves.
5. Inquire into all matters raised at the time of our audit on which the lapse of time might shed additional light.
6. Inquire as to unrecorded items such as (a) losses from fire, flood, windstorm, explosion, or similar casualties; (b) retirements or abandonments of property; (c) liabilities other than routine liabilities in the ordinary course of business; and (d) significant acquisitions or sales of property or other transactions not in the ordinary course of business.
7. Inquire as to changes in material contracts and as to any new contracts including pension, welfare, and profit-sharing plans.
8. Inquire as to (a) significant increases or decreases in the volume of business other than from seasonal fluctuations; (b) changes in the character of business and products sold; (c) important customers lost; (d) material returns and allowances; and (e) material changes in the volume of unfilled orders.
9. Inquire as to important changes in raw material, wage and salary, and other major elements of cost.
10. Inquire as to whether there has been any interruption of production due to plant shutdowns for strikes or other reasons or due to similar conditions affecting suppliers of materials and parts.
11. Inquire as to any significant bad debts or accounts in dispute for which provision has not been made.
12. Consider the effect of recent price and cost trends on inventories on hand and contracted for.
13. Inquire as to new legislation or government regulations and consider the impact of these and of recent political and economic developments on the business of the company.
14. Inquire as to material changes in purchase and construction commitments and in other contractual obligations.
15. Inquire as to (a) new litigation or changes in litigation pending at date of balance sheet; (b) newly discovered liabilities, direct or contingent; (c) material changes in the situation with respect to income taxes and renegotiation including any important recent decisions or rulings affecting the liability of the company. Where appropriate, this inquiry should also be directed to legal counsel.
16. Obtain appropriate letter(s) of representation from client.

E 101

Excerpts from Government's Exhibit 13

IV.3.1

General Outline for Review of Unaudited Financial Statements of Preceding Interim Period Included in Registration Statement

1. Obtain most recent financial statements since date of last audited balance sheet for parent, consolidated and individual subsidiaries. Compare with corresponding period of previous year and with last audited period. Obtain explanation for variances and unusual items.

2. Inquire as to proper cut-offs.

3. Inquire into bases of determining closing inventory, tax provision, doubtful debt, and other reserves.

4. Inquire into all matters raised at the time of our audit on which the lapse of time might shed additional light.

5. Inquire as to appropriate treatment of major adjustments subsequent to the cut-off date, especially whether the interim period has received, if appropriate, its proper portion of the adjustment.

6. Discuss figures with officers and employees responsible for accounting matters as to comparability and consistency with prior periods.

Note:
The above outline assumes that the review prescribed for the current period has been made, that all retroactive adjustments have been given effect to and that there are no unusual circumstances that would require additional investigation to ascertain that the interim figures are not misleading.

E 102

Excerpts from Government's Exhibit 13

Material Student Marketing Corp
Schedule of Unbilled Receivables

W. P. NO. A-4
ACCOUNTANT
DATE 5-22-69

ORIGINAL

Analysis of Unbilled Receivables
November 30, 1968

Client		Amount
Clairol	$	567,812
Chesebrough-Ponds		119,281
Chrysler Corp.		95,920
Nationwide Insurance		4,650
Schick Safety Razor Co.		30,000
Carnation Company		36,218
Barnes-Hind Laboratories		209,603
Bizaar Productions		6,580
National Career Exposition		5,095
U. S. Navy		6,000
American Airlines		16,318
Eastern Airlines		190,542
Dupont		84,604
Waldorf		2,216
Gossard		53,775
Chicken Delight		50,625
Fayette - Faberge		53,775
Chattem		53,775
Campana		53,775
Pace		14,492
Ban		19,500
Listerine		81,900
Syntax		122,578
Pan American		30,550
Scripto		17,550
Tanva		32,200
Pontiac		130,500
Westinghouse		16,000
Mitchem		34,425
Haines		21,708
Remington		29,923
Ford		17,010
Miscellaneous		1,821
Unbilled Receivables Per Financial Statements		$2,210,721

E 103

Excerpts from Government's Exhibit 13

SCHEDULE II

Analysis of Unbilled Receivables
November 30, 1968

Client	Amount	Entries Reducing U/B for Billings Etc.	U/B as of 2/28 Statements	Balance @ 2/28
Clairol	$ 567,812			567,812
Chesebrough-Ponds	119,281		28,031	91,250
Chrysler Corp.	95,920	95,920		-0-
Nationwide Insurance	4,650			4,650
Schick Safety Razor Co.	30,000			30,000
Carnation Company	36,218			36,218
Barnes-Hind Laboratories	209,603	41,867 23,900		143,936
Bizaar Productions	6,580			6,580
National Career Exposition	5,095	6,095		<1,000>
U. S. Navy	6,000	1,250 5,400		<650>
American Airlines	16,318			16,318
Eastern Airlines	190,542	3,311 7,750 40,729		106,752
Dupont	84,604	4,666	15,513 63,425	-0-
Waldorf	2,216	1,263		953
Gossard	53,775			53,775
Chicken Delight	50,625		50,625	-0-
Rayette - Faberge	53,775			53,775
Chattem	53,775		53,775	-0-
Campana	53,775	31,875		21,900
Pace	14,492			14,492
Ban	19,500			19,500
Listerine	81,900	11,700	70,200	-0-
Syntax	122,578			122,578
Pan American	30,550	6,500 17,550 6,500		-0-
Scripto	17,550			17,550
Tanva	32,200			32,200
Pontiac	130,500			130,500
Westinghouse	16,000		16,000	-0-
Mitchem	34,425	12,746		21,679
Haines	21,708	6,373		15,335
Remington	29,923		29,923	-0-
Ford	17,010		17,010	-0-
Miscellaneous	1,821	609 1,800 200		220
Unbilled Receivables Per Financial Statements	$2,210,721	358,886	345,502	1,506,333
			Plus Cin 2/28/68	160,750
			2/28 Balance per statement	1,667,083

E 104

Excerpts from Government's Exhibit 13

[illegible] Marketing Corp. | W. P. No.

[illegible] | 2-28-67 | ACCOUNTANT | DATE

Prepared By

Approved By

USMC

ANALYSIS OF ACCOUNTS TO BE WRITTEN OFF

2/28/67

DATE REACTED		TOTAL CONTRACT	SALES BOOKED	COSTS [illegible]		LINE NO.
	D KELLY :					1
8/31	Dupont	850000	697300 ✓	324000 ✓		2
8/31	Dupont	900000	853500 ✓	590000 ✓		3
			[illegible]	[illegible]		4
						5
	B. GANIS					6
8/31	Chicken Delight	5062500	5062500 ✓	26312 00 ✓		7
8/31	Chesebrough Pond	3000000	2803100	1687500 ✓		8
8/31	Dupont	7000000	6442500 ✓	4212500 ✓		9
8/31	Chattem Drug	5625000	5377500 ✓	2380500 ✓		10
11/30	Remington	4274700	2992300 ✓	1181300		11
			[illegible]	[illegible]		12
						13
	D. DREYER					14
11/30	Ford	1000000	900000 ✓	630000		15
11/30	Ford	890000	801000 ✓	360000		16
						17
						18
						19
	T. DEARMON					20
11/30	Blue Bell	200000	180300	54000		21
						22
						23
	J. STIVERS					24
11/30	Westinghouse	2000000	1600000 ✓	1230700		25
						26
						27
	R MICHAELS					28
8/31	Lestime	7020000	7020000 ✓	4920000		29
			34730200	20691800	14038400	30
						31
						32
						33
			[illegible]			34
			[illegible]			35

2619

Excerpts from Government's Exhibit 15

W. P. No. 0-4-1

Floyd Patterson

5-22

1 Chanel and Cheerleight Foods ? spring to fall - no contract

2 Schlitz - changed from spring to fall - no contract

3 Corpura - Is the balance good. - (write 76)

4 Force - Inland 14,492 should be written off. (write 76)

5 Ekco - Is this worthless

6 Lynton - write off

7 Sceptre - 17550 what is this? write off?

8 Not sure re Coca + Hoagland writing?

9 What about Baltimore ?

10 CMSI was formed in June 1968 - form by 4 stockholders Kelly + Kasmall + majority stockholder - purchase by MSMC for 40,000 shares and must be liquidated 3-31-69 ???

11 use stock option for E.P.S.

E 106

Excerpts from Government's Exhibit 13

National Student Marketing Co.

Pontiac Commitment

W. P. NO. A 5

ACCOUNTANT

DATE 5-22-69

T. 95

PONTIAC MOTOR DIVISION GENERAL MOTORS CORPORATION PONTIAC MICHIGAN 48053

DIRECTOR OF MARKETING

April 28, 1969

Mr. Dennis Kelly
National Student Marketing Corporation
Time & Life Building
New York, N.Y. 10020

Dear Mr. Kelly:

This will confirm our recent conversations relative to our plans for use of the services of National Student Marketing Corporation in model year 1970.

You have submitted to us various proposals for directing sales influence toward the student population of the U.S. These proposals in total would require an outlay of approximately $1,900,000.00.

We are now planning to implement student influence proposals that would result in gross billings of $1,200,000.

I will keep you informed as our plans progress.

Best regards,

J. H. Graham

JHG:sn

Date

E 107

Excerpts from Government's Exhibit 13

NSMC

5/31/69 SEC REVIEW

5/71

W. P. No.

ACCOUNTANT

DATE

IV.2.1

Outline for Review of Interim Unaudited Financial Statements Included in Registration Statement and Subsequent Period To Effective or Closing Date

1. Review minutes (registrant and its subsidiaries) of stockholders, directors, and committees. Obtain copies or make excerpts therefrom for our files.

   In those instances where minutes of recent meetings are not in final form, a letter addressed to the firm and signed by the appropriate official of the client should be obtained describing any matters of importance covered at such meetings. If no important matters were covered, the letter should so indicate.

2. Obtain most recent financial statements since date of last audited balance sheet for parent, consolidated, and individual subsidiaries; compare with corresponding period of previous year and with latest audited period; obtain explanation for variances and unusual items.

3. Inquire as to proper cut-offs. 10th of month. Will hold open for 5/31/69

4. Inquire into the bases of determining closing inventory, tax provision, doubtful receivables, and other reserves.

5. Inquire into all matters raised at the time of our audit on which the lapse of time might shed additional light.

6. Inquire as to unrecorded items such as (a) losses from fire, flood, windstorm, explosion, or similar casualties; (b) retirements or abandonments of property; (c) liabilities other than routine liabilities in the ordinary course of business; and (d) significant acquisitions or sales of property or other transactions not in the ordinary course of business.

7. Inquire as to changes in material contracts and as to any new contracts including pension, welfare, and profit-sharing plans.

8. Inquire as to (a) significant increases or decreases in the volume of business other than from seasonal fluctuations; (b) changes in the character of business and products sold; (c) important customers lost; (d) material returns and allowances; and (e) material changes in the volume of unfilled orders.

9. Inquire as to important changes in raw material, wage and salary, and other major elements of cost.

10. Inquire as to whether there has been any interruption of production due to plant shutdowns for strikes or other reasons or due to similar conditions affecting suppliers of materials and parts.

11. Inquire as to any significant bad debts or accounts in dispute for which provision has not been made.

12. Consider the effect of recent price and cost trends on inventories on hand and contracted for.

13. Inquire as to new legislation or government regulations and consider the impact of these and of recent political and economic developments on the business of the company.

14. Inquire as to material changes in purchase and construction commitments and in other contractual obligations.

15. Inquire as to (a) new litigation or changes in litigation pending at date of balance sheet; (b) newly discovered liabilities, direct or contingent; (c) material changes in the situation with respect to income taxes and renegotiation including any important recent decisions or rulings affecting the liability of the company. Where appropriate, this inquiry should also be directed to legal counsel.

16. Obtain appropriate letter(s) of representation from client.

PMM & Co. (Rev. 4/69)

2651

E 108

Excerpts from Government's Exhibit 13

General Outline for Review of Unaudited Financial Statements of Preceding Interim Period Included in Registration Statement

1. Obtain most recent financial statements since date of last audited balance sheet for parent, consolidated and individual subsidiaries. Compare with corresponding period of previous year and with last audited period. Obtain explanation for variances and unusual items.

2. Inquire as to proper cut-offs.

3. Inquire into bases of determining closing inventory, tax provision, doubtful debt, and other reserves.

4. Inquire into all matters raised at the time of our audit on which the lapse of time might shed additional light.

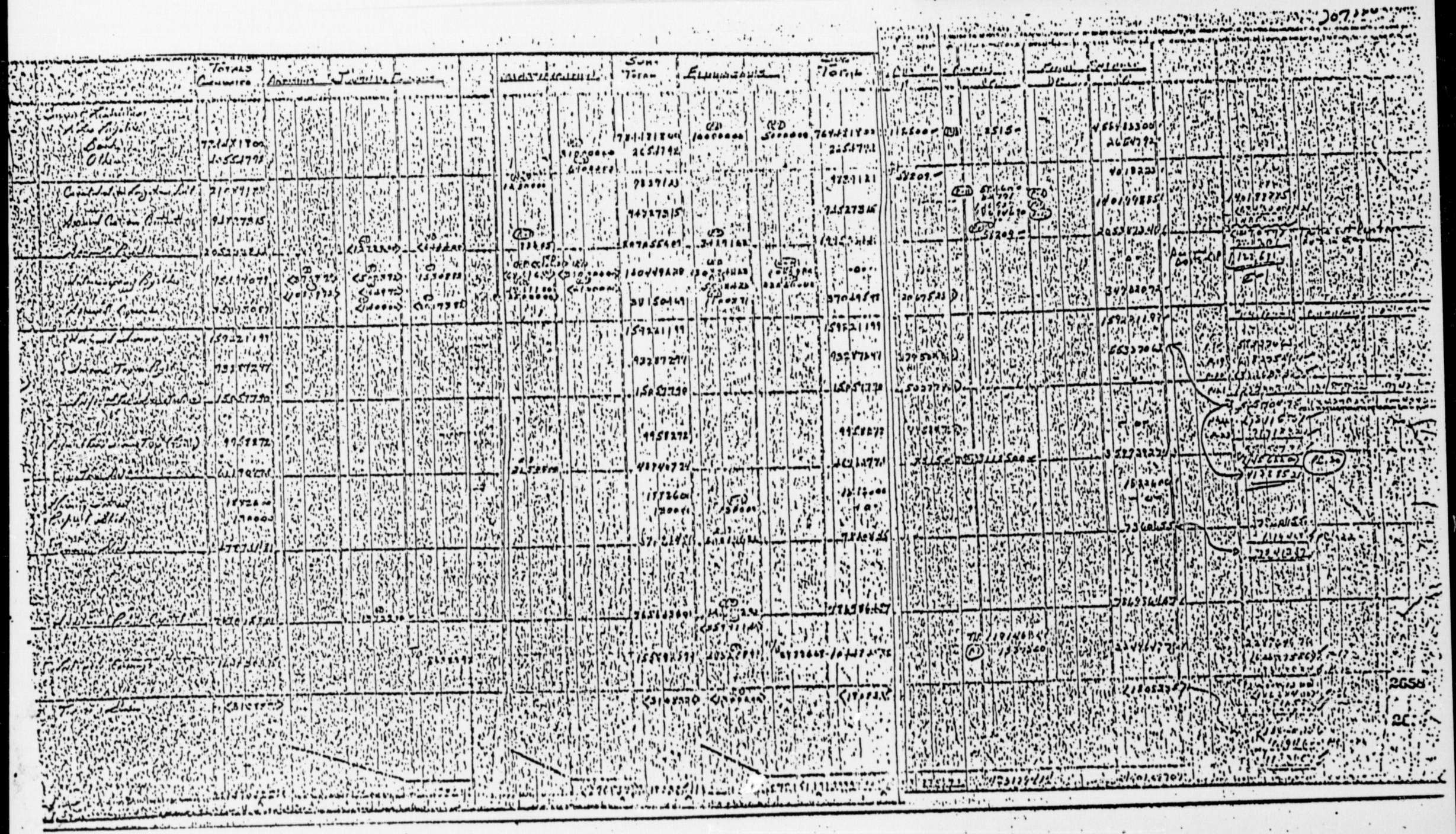
5. Inquire as to appropriate treatment of major adjustments subsequent to the cut-off date, especially whether the interim period has received, if appropriate, its proper portion of the adjustment. See 5-6

6. Discuss figures with officers and employees responsible for accounting matters as to comparability and consistency with prior periods.

Note:
The above outline assumes that the review prescribed for the current period has been made, that all retroactive adjustments have been given effect to and that there are no unusual circumstances that would require additional investigation to ascertain that the interim figures are not misleading.

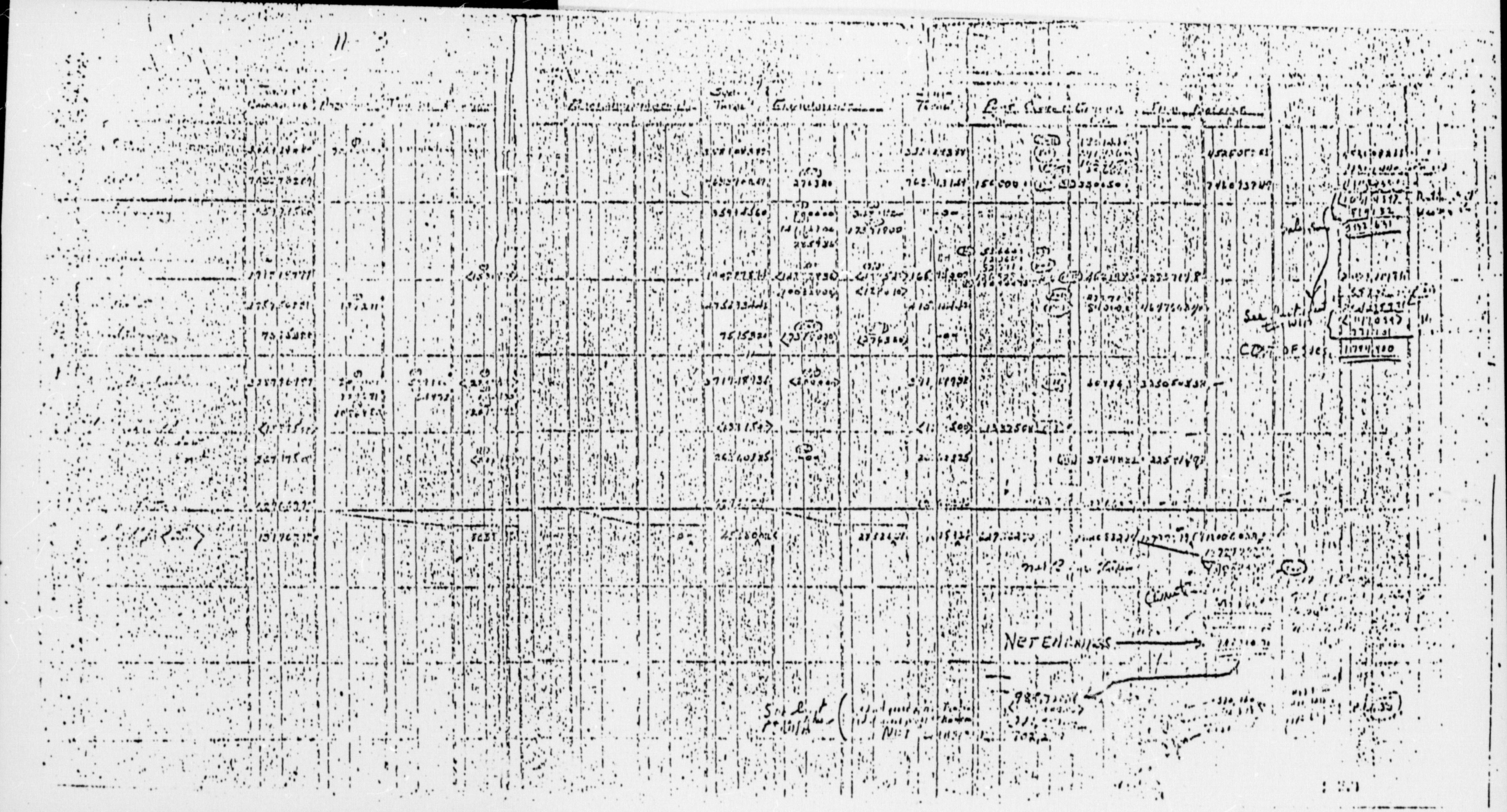
E 109

Excerpts from Government's Exhibit 13



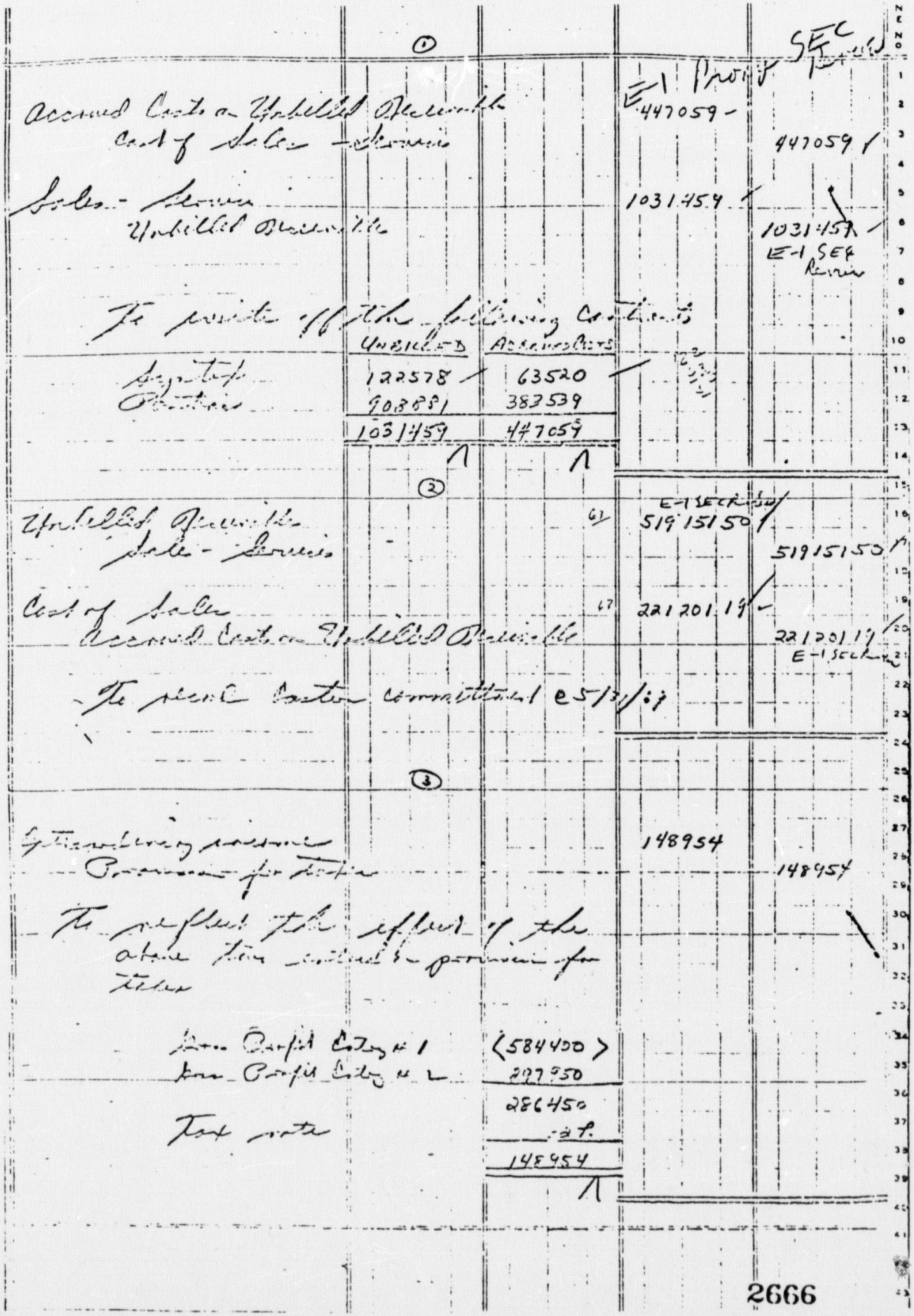
E 110

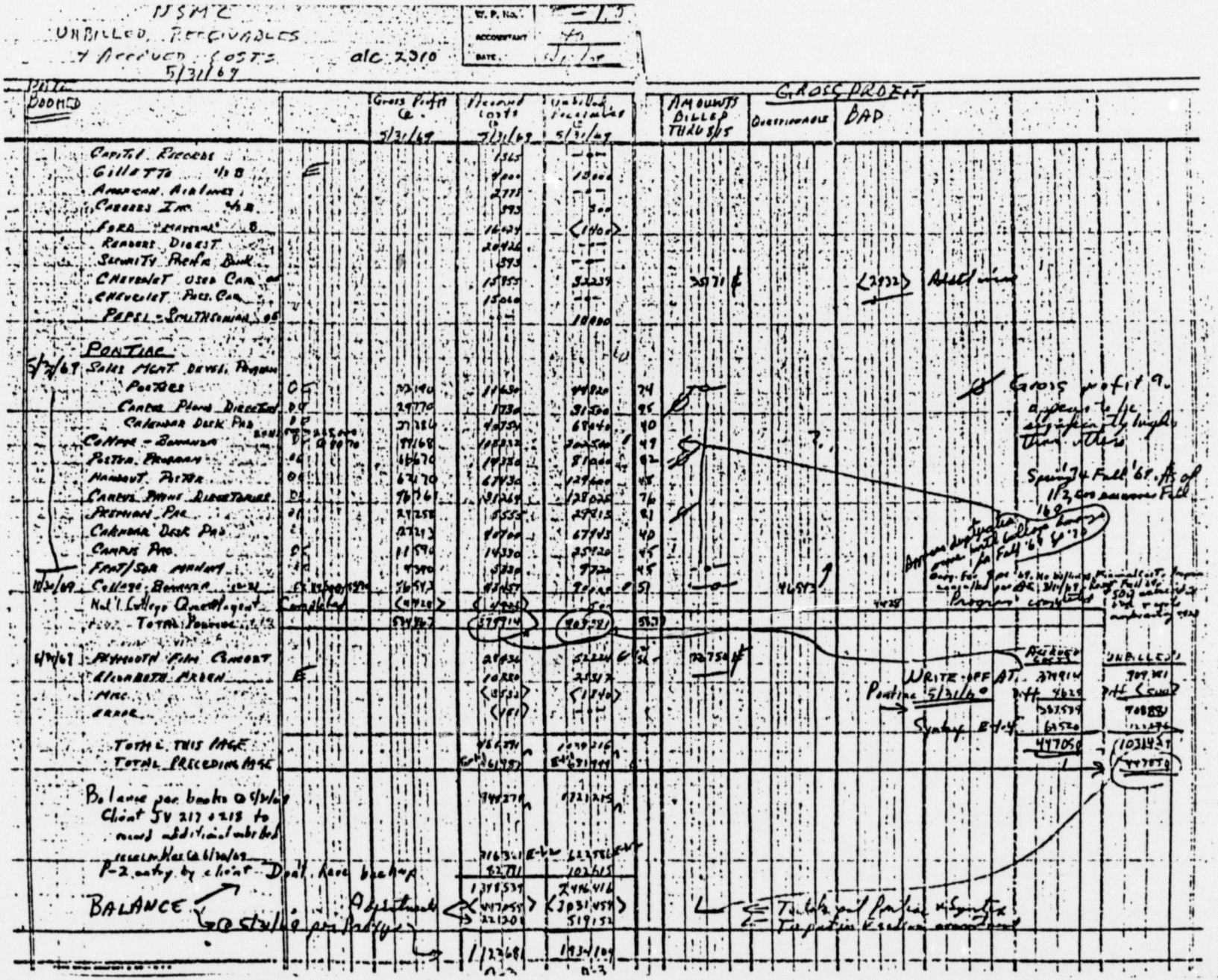
Excerpts from Government's Exhibit 13



E 111

Excerpts from Government's Exhibit 13





E 112

Excerpts from Government's Exhibit 13

NSMC
UNBILLED RECEIVABLES
+ ACCRUED COSTS
5/31/60

W. P. No.	E-1.1
ACCOUNTANT	J. Ito
DATE	6/15/64

GROSS PROFIT

CONTRACT			Gross Profit @ 5/31/59	Accrued Costs @ 5/31	Unbilled Receivables @ 5/31/59	GP %	AMOUNTS BILLED	QUESTIONABLE OR CANCELLED FILE DISCREPANCIES	BAD	
Chrysler Corp				59057	-0-					
National Jet	1/2 B			11497	2450					
School Safety	OE	5/2	25000	5000	30000			25000 GE		
Connecticut Co	OE		5998	16470	25018					By B/E change from 9,000 to 24,000
Bianco Hinds	OE		27650	23220	47850	36			24656	
Connor Hind	OE	1964 E	70525	42625	113150	62	41367			
"				9996	2700					
Bizzaro Prod	OE	E		939	6585		1000		4000	
Nat'l Cement Exposition				2165	<1900>					
US Navy				262	<700>					
American Airlines	OE			10070	16318					
Eastern	B			300	-0-					
Eastern	B			3000	-0-					
Waldorf Parker	B			505	-0-					
Gorsuch	OE	E	24970	41605	63775				24970	
Fabenge	OE	E SAME	24970	28705	53775				24970	
Compano	1/2 B			21905	21900				24900	
Paco	OE		11492	3000	14492	79				
American Airlines	B			14385	-0-					
Syntex-Lofspo	OE	E Balance	26981	23725	50706	53	—			
Syntex Benito	OE	Carried Forward	26581	23725	50306	53	—		59061	
Syntex-Pw	OE	Drafted from combustion per A/E	5990	16040	21960		—			
			56971							
Seagull Rec	OE			565	<1950>					
US Navy				4937	<350>					
Pan Am Coffee				3537	-0-					
Slim Jim					250					
Taiga	OE		13990	11559	25549		—	—	13990	
Bianco Hinds	OE		12794	10056	22900				12794	
Connecticut	OE		6080	6120	11200					
Eastern				2950	<1550>		1590 B			Should charge to ... dept 104 ...
Eastern	OE		10125	3825	13950					Now being ... by Eastern ...
										... by ...
Nationwide				71	2000					
Fletcher		E 1964		19816	<3815>		3924 B			Should ...
Hanes	1/3 B			14410	15525					
7/31 Eastern - Citylair-Spray			17797	9755	27000		—		17797	
1971 Eastern	OE		13990	13010	27000	52	-0-			Funds in Contr. budget ...
1971 Eastern	OE			25470	27470		—			... value ...
				1,198?						

E 113

Excerpts from Government's Exhibit 13

Excerpts from Government's Exhibit 13

N.S.M.C.

BACK-UP FOR CLIENT POST CLOSING ENTRY

RE: UNBILLED REC. ACCRUED COST & GROSS PROFIT

5/31/69 NSMC

W.P. No. E-103
ACCOUNT No. E-110
DATE 8/15/69

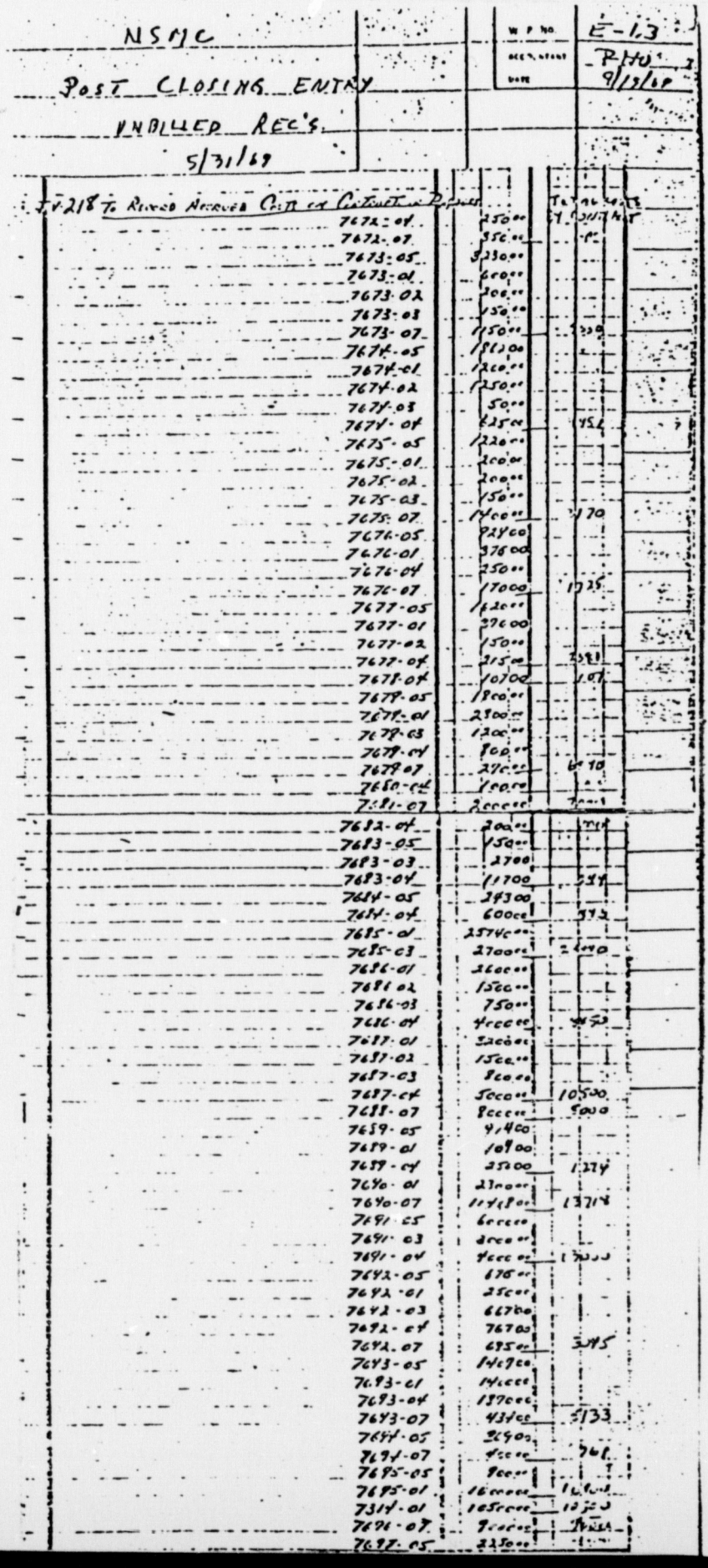
Annual Journal Entries

J Ltg. A&B 17 of 35

5/31/69 Unbilled Accounts Receivable

| | | |

Excerpts from Government's Exhibit 13



NSMC

POST CLOSING ENTRY

UNBILLED REC'S

5/31/69

W P No. E-1.3

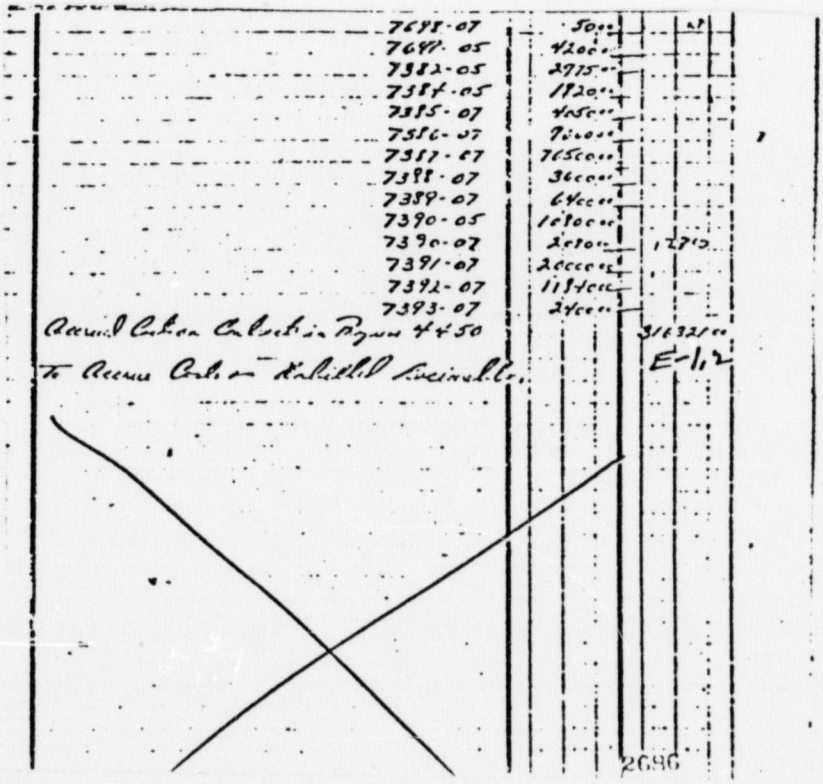
Acct. Period P-10

Date 9/12/69

F-218 To Record Accrued Cost on Contracts in Progress

7672-04	250.00			
7672-07	550.00			
7673-05	8230.00			
7673-01	600.00			
7673-02	300.00			
7673-03	150.00			
7673-07	1150.00			
7674-05	1811.00			
7674-01	1200.00			
7674-02	1250.00			
7674-03	50.00			
7674-04	625.00			
7675-05	1220.00			
7675-01	200.00			
7675-02	200.00			
7675-03	150.00			
7675-07	1400.00			
7676-05	2400.00			
7676-01	3780.00			
7676-04	2500.00			
7676-07	17000			
7677-05	1200.00			
7677-01	2700.00			
7677-02	1500.00			
7677-03	315.00			
7678-04	10700			
7678-05	1800.00			
7678-01	2800.00			
7678-03	1200.00			
7678-04	800.00			
7678-07	2700.00			
7680-04	1500.00			
7681-07	2000.00			
7682-04	2000.00			
7683-05	1500.00			
7683-03	2700.00			
7683-04	11700.00			
7684-05	2930.00			
7684-04	6000.00			
7685-01	25740.00			
7685-03	27000.00			
7686-01	26000.00			
7686-02	1500.00			
7686-03	7500.00			
7686-04	4000.00			
7687-01	52600.00			
7687-02	1500.00			
7687-03	8000.00			
7687-04	5000.00			
7688-07	8000.00			
7689-05	4400.00			
7689-01	10800.00			
7689-04	2500.00			
7690-01	23000.00			
7690-07	11400.00			
7691-05	6000.00			
7691-03	8000.00			
7691-04	4000.00			
7692-05	1750.00			
7692-01	2500.00			
7692-03	6670.00			
7692-04	7670.00			
7692-07	6950.00			
7693-05	14670.00			
7693-01	14000.00			
7693-04	13700.00			
7693-07	4340.00			
7694-05	2690.00			
7694-07	4000.00			
7695-05	9000.00			
7695-01	16000.00			
7314-01	10500.00			
7696-07	9000.00			
7697-05	2250.00			

E 1150


7698-07
7691-05
7382-05
7384-05
7385-07
7386-07
7387-07
7388-07
7389-07
7390-05
7390-07
7391-07
7392-07
7393-07
Accrued Cubic Contents Pymt 44+50
To Accrued Cubic Contents Estimate
E-1.2

NSMC
UNBILLED RECEIVABLES - QUERIES
5/31/69

W. P. NO.	E-121
ACCOUNTANT	[illegible]
DATE	6/6/69

	DATE OF CONTRACT	ORIG AMT LESS EST COST-GP	Contract Performance Date	REMARKS	AMOUNT OF [illegible]
[illegible]	8/31/68	30000 (5000)		Per contract file: Original contract [illegible] reduced from 30,000 to [illegible] Contract has been [illegible] Nov 68 change [illegible] DEFINATELY DUPLICATED [illegible]	
Diesel Products	8/31/68	6580 939 5641	2/69	Per contract file: Original contract of 7200 [illegible] = 6,580 has been reduced to total remaining contract Gross dollars [illegible] for only 1,080 - should see each [illegible]	4000
Gerard	8/31/68	53775 (28801) 24974	Spring '69	Per contract file - No signed contract - Per accounting dept "No, project now should be deleted from contract report"	24973
Faberge	8/31/68	53775 (28801) 24974	Spring '69	Per [illegible] project now No prospect should be deleted from [illegible] report"	24973
Syntex - College Syntex - Berenice Syntex - Fisher Wood	8/31/68	50349 3711 50349 33735 3900 (160094) 54101	Spring '69	Per contract file - Recommendation Dated "Program has been cancelled & should be deleted from contract All of gross profit was [illegible] college No. [illegible] removed	E-1 59661
Tanya	11/68	23700 (10350) 13350	3/69	Per contract file No contract, Accounting dept status report [illegible] 5/29/69 "Program cancelled most almost advertising funds for '69. Will probably go on spring of 70 [illegible] would not pre-select. Change gross revenue from 24,000 to [illegible]"	13350
Barnes Hind	11/68	23700 (10350) 13350	3/69	No contract. Per check card "Contract d/d/68 deleted from contract report"	12350
Barnes - Hinds	11/68	47700 (23350) 24350	3/69	Change gross revenue from 53200 to 47700 (-5500) Per [illegible] cancelled because [illegible] Change [illegible] opening '70. I suggest deleting the remainder from [illegible] year [illegible] based on [illegible] '70 gross ME	24050
Coronation	8/31/68		Fall '69	No contract Per ME change G/P expected [illegible]	(5000)

E 116

Excerpts from Government's Exhibit 13

E 117

Excerpts from Government's Exhibit 13

NSF.C
DAVILLEO RECEIVABLES – QUERIES
5/31/70

W.P. No.	E-1.5
	Exhibit
DATE	9/29/70

	Date of Original Billing	Orig. Bill less eliminations Cost + GP	Contract Reference Date	REMARKS	GROSS PROFIT Qualifiable	GROSS PROFIT Bad
Plants			Feb'69	Per contract file: Added contract for $10,000 Recent item recognized		(600)
Classified Used Cars				Booked at 90%, billed @ 100% upon 100% Insurance inspection		(1924)
Campers	9/14/68	31775	Mar 69	Per contract file: unbilled contract for 24,900		21900
	Billed, Unpaid	(10,075)		unbilled due to credit from 9/14/68 invoice,		
	Unbilled	21700		and previously recognized.		
				Per letter dated 9/29/70 from [illegible] to same, we recognized [illegible]		
				part of [illegible]		
Volks AA-City Point-Spring	12/31/68	30000	Spring '69	Per contract file: AE [illegible]		
		(3014)		all @ 8/31/71		
		21700				
					3903	17966

E 118

GOVERNMENT'S EXHIBIT 14

MEMO FROM KUREK TO RANDELL (6/3/69)

nsmc MEMORANDUM

FROM: B. J. Kurek
TO: C. W. Randell
DATE: June 3, 1969

HV001457

IN RE: MEETING WITH TONY NATELLI

I met with Tony this morning from 9:30 to 11:00 incidental to our phone conversation yesterday. I reviewed with him the progress our profit planning and budgets were making, the Finance Committee, ideas incidental to a master cash pool and tax effects of consolidated Federal tax returns and stock options. After discussing the above and setting the atmosphere of the meeting, the subject of the meeting was changed to that of NSMC's manner of booking contracts.

Cort, quite frankly, Tony is very concerned about this situation. Last fall he felt that the manner in which he allowed us to book contracts would be a cyclical deal....in other words, we would be selling and delivering on contracts in the same quarter that financial reports were made. He now sees the situation as one where commitments either make or break us and we are not performing in the period the sale is made. Furthermore, he anticipates that unbilled receivables could be as high as $4,000,000 at August 31, 1969. If so, he will have to give us a qualified opinion or perhaps no opinion. This is very serious, since it could adversely affect our registration this fall. He stated that people working under him are uncomfortable with this situation and if anything were to happen, their "certificates" and careers would be at stake.

Cort, he has reassessed the situation, and I feel is rather firm in his conviction and is going to be hard to move. Therefore, due to the seriousness of the matter and my feeling of his conviction, this is a very serious matter for NSMC.

I invited him to our Finance Committee meeting of June 9, 1969 at 3 PM.

BJK:ls

E 119

GOVERNMENT'S EXHIBIT 15

MEMO FROM KUREK TO RANDELL WITH COMMITMENT ANALYSIS (6/6/69)

EN000028

B. J. Kurek
C. W. Randell
June 6, 1969

In Re: Various Accounting Matters Needing Consideration

I. Sales Forecasts

Last week B. Bushnell gave us a sales forecast by Account Exec., Client and Program. In the future if it is to fit into our profit plan it will have to be more detailed. In other words, for your purposes what he submitted is fine. But for accounting purposes, it did not give sales dates or billing dates. We therefore do not know for budget purposes what months the sales fall in nor can we schedule cash flow. Another problem is the operations department cannot forecast costs. This again hinders cash flow projections. Therefore, I'd like to revert to what was originally set up for sales forecasting.

II. Regional Rep Advances

As you know, during the year many regional reps were advanced commissions. A part of our weekly commitments reports indicates the advance balance. The advances for these reps as of May 30, 1969, amounts to $18,783. If uncollectible (?) it will have to be expensed.

III. Unbilled Receivables

Cort, my only purpose for mentioning this is to show you how I think Tony Natelli is looking at the situation. From our budget revisions of June 2, the following have some bearing on the way Tony views the company:

Projected:

Gross Sales	$4,407,343
Unbilled Receivables	3,569,044
% unbilled receivables to gross sales	79%
Unbilled Receivables	$3,569,044
Accrued costs on contracts in progress	1,964,089
Gross profit on unbilled receivables	1,605,044
Gross profit on sales	1,938,473
% of gross profit contributed by unbilled receivables	83%

E 120

Government's Exhibit 15

In other words 83% of our gross profit is derived from Unbilled Receivables which is 79% of total sales . . . . and is contingent on future performance.

IV. Commitment Analysis

Pages 1 through 9 of Exhibit B is an analysis of commitments. It cuts through them from many angles and without an explanation may be a bit confusing. I'll be glad to review it with you. Sheet 9 shows a summary of the "Beast".

BJK:dr

E 121

Government's Exhibit 15

	Contract Form	Amount		Claim	Contract	Value
E Clerk						
Clerk	Verbal	50000				50000
Lieutenant	Verbal	70000				70000
Lieutenant Gen	Verbal	100000				100000
Lieutenant Gen	Verbal	[illegible]		[illegible]	[illegible]	
L Corbett						
Commissaries	Contract	17037		17037	17037	
	Verbal	20000				
Wilson Actors	Contract	3790		3537	3537	
D Cole						
Dupont	Verbal	8500				8500
Dupont	Verbal	9000				9000
Eastern Arsenal	Verbal	6650		6650	6650	
" "	Verbal	32250		32250	32250	
" "	Verbal	321		321	321	
" "	Verbal	5000		1468	1468	
E Dorsett						
Federal Cartridge	Contract	6035		6035		
W Young	Contract	5000		5000	5000	
C Gross						
Hazard	Verbal	50350				
Charles Delight	Verbal	50035				50035
Chesborough Pond	Verbal	30000				30000
Dupont	Verbal	70000				70000
Johnson	Verbal	50350				
Charles Dow	Verbal	50350				50350
Company	Contract	50350		50350	50350	
D Dwyer						
Cingular	Contract	112000		112000	112000	
Nationwide cingular	Letter	2650		2650	2650	

E 122

Government's Exhibit 15

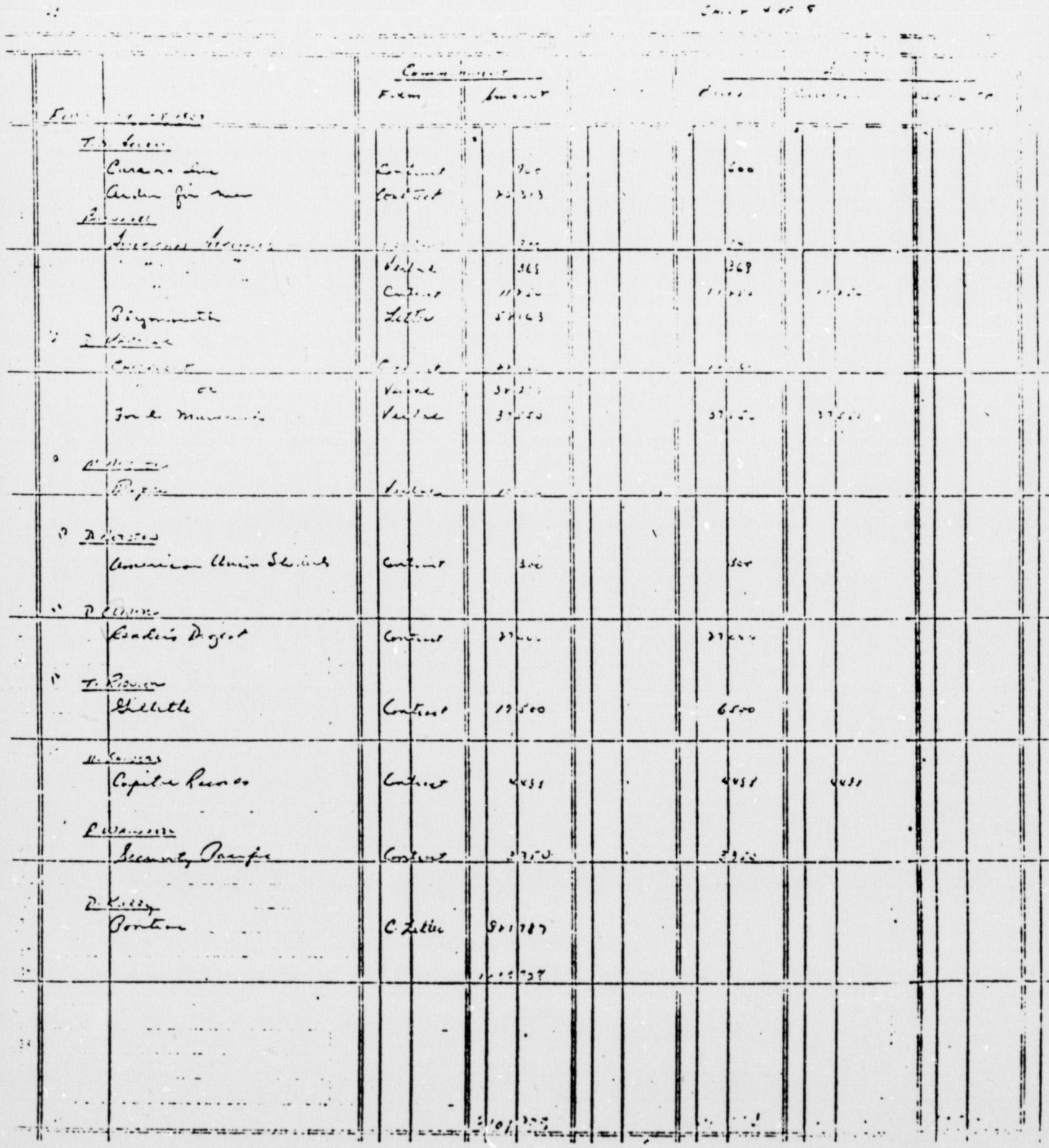
E 123

Government's Exhibit 15

	Eastern Airlines	Verified	15500		15[illegible]	[illegible]750	
		Verified	15500				
		Verified	30[illegible]				
		Verified	23[illegible]				
		Verified	33300				
B [illegible]							
	Mitchum	Contract	33250		31341	33[illegible]	
	Haynes	Contract	24136		6[illegible]34		
	Remington	Verified	43747				43747
D Diego							
	Wainwright	Verified	20000				
	Pontiac	Verified	111[illegible]55				
	Ford	Verified	10000				10000
	Ford	Verified	8900				8900
G. Stocks							
	Bonanza Hotel	Contract	25000		23165	23[illegible]65	
	Tanya	Verified	46000				
D Mowen							
	Pan Am Coffee	Contract	19500		19500	19500	
T.C. Cabell							
	Sample	Verified	19500		19500	19500	
	U.S. Navy	Contract	1000		1250	1000	
J Stivers							
	Lexington	Verified	400				
	Pontiac	Verified	40000		40000	40000	
	Washington	Verified	20000				20000
T. Dame							
	Blue Bell	Verified	2000				2000
			[illegible]4[illegible]7				
			5[illegible]12[illegible]7				

E 124

Government's Exhibit 15



E 125

Government's Exhibit 15

	Total Sales	Account Billed	Collected	Written Off	Form of Contract Vessel	Contract	Letter		Net Sales Commissions	% Net Sales
L. G. Allen Co.	46713	21350 46%	20750 44%	-	19500 42%	27213 58%	-		46713	100
R. Bushnell Co.	228248	47822 21%	38554 17%	-	144009 63%	32677 14%	52163 23%		228848	100
L. Deanna Co.	2000			2000 100%	2000 100%				-	
L. Dreyer Co.	252000	114550 46%	114550 46%	18900 8%	133400 53%	112200 45%	5300 2%		231300	100
B. Klein Co.	480742	76490 16%	70116 15%	244622 52%	362122 75%	118620 25%			231136	100
E. Lovell Co.	11495	11495 100%	6400 47%			11495 100%				
D. Kaelak Co.	91949	59710 65%	37550 41%	-	69789 76%	22160 24%			91949	100
D. Kelly Co.	783598	46729 5%	46729 5%	17500 2%	61761 7%	-	721787 93%		966048	100

	Total Sales	Amount Billed	Amount Collected	Amount Written-off	Form of Commitment: Verbal	Form of Commitment: Contract	Form of Commitment: Letter	Net Sales less losses	% of loss on sales
R. Nichols Do	675000	5000 .1%	5000	670000 99%	675000 100%			5000	1%
M. Foster Do	10000				10000 100%			10000	0%
L. Newton Do	19800	19800 100%	19500 98%			19800 100%		19500	1%
L. Oliver Do	27000	27000 100%				27000 100%		27000	0%
J. Rogers Do	19500	6500 33%	6500 33%			19500 100%		19500	0%
H. Glover Do	4488	4488 100%	4488 100%			4488 100%		4488	0%
J. Burdick Do	287000	23000 8%	23000 8%		133000 46%	153000 54%		287000	0%
J. Stevens Do	60000	40000 66%	40000 66%	20000 34%	60000 100%			40000	1%

E 127

Government's Exhibit 15

	Total Sales			Billed	Account Collected		Written-off			Form of Commitment Verbal		Contract		Letter			Net Sales Commissions		% Total Sales	
G. Wardell	$350			$350								$350					$350			
				100%								100%								
	$3101	252		$501	389		[illegible]	47		[illegible]	210		31	323		570	50			
					16%			14%			54%			18%			28%			

Government's Exhibit 15

E 128

Consolidated Analysis

June 6, 1967

Sheet No. 6

	Communist Cases				Possible Communist Cases				Communist Petitioners & Applicants			
	Federal	Contempt	C. Letter		Federal	Contempt	C. Letter		Federal	Contempt	C. Letter	
Allen	1	3	0							1		
Cudahy	9	3	1						5		1	
Damon	1	-	-	1								
Dreyer	4	1	1	2					2			
Gesa	7	3	-	5					2			
Goodrich	-	2	-	-					-	-	-	
Kasdan	2	1	-	-					1	-	-	
Kelly	6	-	1	2					-	-	1	
Medard	4	-	-	3					-	-	-	
Parks	1	-	-	-					1	-	-	
Olson	-	1	-	-					1	-	-	
Lagmon	-	1	-	-					-	-	-	
Slivon	-	1	-	-					-	-	-	
Seidel	4	2	-	1					4	1	-	
Stamos	3	-	-	1					1	-	-	
Weinstein	-	1	-	-					-	-	-	
Kunstler	-	2	-	-					-	-	-	
	41	21	3	19					16	2	2	
August 1963	20	7	1									
September 1963	16	5	-									
February 1967	5	9	2									
	41	21	3									

E 129

Government's Exhibit 15

USMC

Summary of Commitment Analysis 8-6-67

		Net Sales Pg 5-7 Col 11	% Total Sales		Commitments Not Filled Type V	Type C	Type CL	Amount $ Value	Less Cost	Net Profit
	Allen	46,713	3.20			1				
1	Bushnell	233,748	10.75				1			
	Deacon									
2	Lange	234,500	10.91							
3	Leupold	23,100	1.08							
	Goodrich	11,455	.54							
4	Lyman	51,949	2.43							
	Kelly	366,038	16.78				1			
	Micrometer	5,000	.24							
	Weaver	10,000	.47							
	Alaska	19,800	.93							
	Oehler	27,000	1.27							
	Redfield	19,500	.92							
	Stevens	4,687	.21							
5	Unertl	287,000	13.51							
6	Stevens	46,400	1.50							
	Winchell	3,350	.16							
	Total,	2,133,411	100.00		16					
1	American Optical	20,000	1.38							
	Eastern Optical	107,300	7.40							
2	Tasco	2,000	.14							
	Optical (sold in Kelly)	112,000	7.72							
3	Bausch	56,250	3.88							
	Valdoptic	56,250	3.88							
4	Cromwell Optical	31,239	2.15							
5	Bajana Products	7,200	.50							
	Centurion	25,200	1.74							
	Brownell	53,245	3.67							
	Tasco	46,200	3.19							
6	Lion Gun	200	.01							
		520,134	35.85							

E 130

GOVERNMENT'S EXHIBIT 16

NOTES OF 6/9/69 FINANCE COMMITTEE MEETING

DRAFT NOTES FROM:

FINANCE COMMITTEE MEETING
June 9, 1969

In attendance:

Cortes W. Randell
Don Fergusson
Jim Joy
Bernie Kurek
John Stalick
Tony Natelli

CORTES — Do you know the amount of Fixed Fee as of the first 6 months?

BERNIE — $538,000 booked as of November

CORTES — Showing 3.3 for the year out of 6.1 total sales. Problem: We started out the year with certain contract rules: Verbal and Written. All the written agreements have been fulfilled and none have had to be written off. The verbal we have had to write off. As of February 28, no more verbal. If we can't book any more sales, we'll have to fire staff in Operations and let some Account Executives go.

TONY — We examined the year'68...doing the audit, looking at revisions of Operations, agreed to set up contracts as revenue...Total dollar problem was different in '68... Account Executive structure started early '68 and new area of activity built up to all the contracts that were obtained...
First approach to questions studied: What would be deferred cost? Couldn't say all of Operations deferred. Contracts that are different from P.I.'s. Extent of company participation other than allowing all the costs to be third party costs. Ex., Printing Have to recognize earnings early to estimate percentage completion of program.
Second approach: From the audit standpoint...Client Commitment with a verbal contract by phone...How much time did Account Executives have before August 31...In matching revenue and costs, registration statement should have been liquidated.

CORTES

213011

E 131

Government's Exhibit 16

CORTES — 30% of Verbal Contracts - Not good
0% of Written - Not good
i.e., 14 out of 41 written off
$978,000 out of $3 million since last August 31.
On Clairol this year we will get in close to $300,000 - $400,000 (both written contracts)

TONY — $800,000 out of August figures did not come through...

CORTES — 80% or 90% of what we are talking about were Ron Michaels verbal contracts ... other than duplicates, Ganis and Michaels are the only ones we have had to write off.

DON — It's the system of booking and not the man. It's not cost matching income.

BERNIE — As of February - 16 Contracts were booked (5 were verbal)

CORTES — Recommend that you send a written letter to every Written Contract.

TONY — Through the Fall and the Spring there were to be more Committments

CORTES — $2 million first 6 months
$2 million second 6 months
We have done all written agreements. Of the 30% Verbal No Goods, 80% were Ron Michaels.

TONY — Wrote Michaels off...1.7 down to 1. Of revenue 3.3 only 1. has been performed.

CORTES — We are adding 1.6 and 1.7

TONY — 3.3 is sitting unbilled

CORTES — On our subsidiaries we are net out $2 million in earnings. Earnings for April, May, June, July, August on the NSMC side are $290,000. We won't have earnings for the field programs.

DON — More than that...$350,000 - $400,000 before earnings.

BERNIE — Budget says $260,000

JIM — The write offs are fewer...

TONY — Total volume of sales for '69 has yet to be performed... all sitting unbilled.

E 132

Government's Exhibit 16

JIM — This is what we did last August...All of negative were Verbals...feel good about the positive written.
Sales in September , the million dollars is not on the books anymore.
Sales in November, $200,000 - $300,000 is performed and collected.
Sales in February, not performed til fall.
Sales from May 30 - August 31 not performed til fall.
...therefore, three quarters not performed till fall.
Budgets and agencies are 6 months ahead...

DON — From May to September, can't deliver to kids.

TONY — Problem: Determining how much percentage wise as gross profit should be taken in at one time.

CORTES — Percentage completion of program... say 200 man hours on Pontiac Contract.

TONY — How much then before it's fully completed?

CORTES — Kelly probably has only one more visit...Bruce Baker still has time in Production... Charlie Low then would handle posters through reps.

TONY — With 29 salaried people to help Operations, your taking profit on contract. I thought concept was based on premise...little or no cost to complete contract.

CORTES — We could put 10% of profit in and have 90% to go. Dennis probably only needs 2 or 3 more hours in to Pontiac.

JIM — Everything that happened in last year, backs up premise on which decisions were made. Larger numbers - larger company.

TONY — $45 million in sales is fine but its important that 3.3 is unbilled in balance sheet. Suppose we do run into problems...will you sue them...doubt if you have a case. I've got to look at the negative.

JIM — If the concepts wrong - than no profit. Overlooking the situation the business decesion was made to build a sales force for good reasons...Find a way that's right and keep building corporation.

E 133

Government's Exhibit 16

TONY — Take lumps now and profits later. Let's defer cost until delivered. Realistic approach to future...We got into 6 months figures and later 2 more contracts came into figures that could have been adjusted.

DON — Look at unbooked receivables...substantial figures were on Verbal commitments. A good part of your concern is the write off. History should be guide to future. The form of booking cannot be changed ... look to system and not the concept. Cannot change school year: 65% before December - 35% from January to May
In total for this August 31 percentage comparable to that of last August 31.

CORTES — The theory of assuming profit...Always been able to take middle of road course on problems. Both legal and accounting advice has always been appreciated. Toni doesn't want to see the company stabbed. When contracts do come in they are going to be looked into thoroughtly and no verbals.

TONY — Would like to see an increase in conservatism. No additional advanced recognition of income...The bigger a company gets the more susceptible they are.

CORTES — The Conservative Road is exactly the road we're taking. If you can find on our books a receivable that's not collectable...

TONY — Awful lot of deferred items on balance sheet. Don't boost projections - tone down.

CORTES — Haven't changed projections in 7 or 8 months even tho' we've gotten new companies since then and new contracts. Bernie, Jim & I all feel that way.
$450,000 knocked off budget this summer...
Account Executives system (predicting business)
Development of Program System with profit and cost centers...
Accounting set up by Bernie along with budgeting and Control Systems...
You have our support and I feel that you are being fair...

EXCERPTS FROM GOVERNMENT'S EXHIBIT 17

PROXY/MASTER PROOF (8/9/69)

NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENT OF EARNINGS—(Concluded)

is best matched against costs directly connected with the production of this income by recording the estimated gross profit based on the percentage of time incurred to the total estimated time to be incurred by the employees in development of the over-all program for the client. Accordingly, commencing in 1968 all such programs have been accounted for on this basis upon obtaining a client commitment.

(C) Retroactive adjustment was made in the consolidated statement of earnings for the year 1968 for certain contract losses and for recognition of effect of deferred taxes of related net operating loss carryforwards. The net effect of these two adjustments was to increase net earnings for the year 1968.

(D) The average number of shares outstanding during each year has been adjusted: (1) for the stock split described in note 8 to the consolidated financial statements (2) to include the equivalent of the number of shares of common stock outstanding of companies acquired in certain transactions accounted for as poolings of interests and (3) to give effect to exercise of all outstanding stock options.

(E) Net sales and earnings as originally reported to stockholders in the annual report for the years 1967 and 1968 and original prospectus for the year 1966 and the amounts as shown in the summary of earnings in this proxy statement are reconciled as follows:

	1966	1967	1968
Net sales:			
Originally reported	$ 573,259	$2,386,500	$ 4,989,446
Retroactive adjustment for contract losses [illegible]			[illegible]
Pooled companies reflected retroactively	2,084,915	3,266,360	6,309,464
Per statement of earnings	$2,658,174	$5,652,860	$11,308,410
Net earnings (loss):			
Originally reported	(4,510)	168,616	388,031
Retroactive adjustment for contract losses [illegible]			[illegible]
Pooled companies reflected retroactively	80,059	217,019	368,429
Per summary of earnings	$ 75,549	$ 385,635	$ 756,460

Figures for 1968 have been restated in certain instances to conform their presentation with current accounting practices. There was no material effect as a result of such restatement.

(3) Foreign study programs:

The operations of New England Travel Corporation (a wholly-owned subsidiary described elsewhere in the Proxy Statement) involve arrangements by the company of study programs abroad during the summer months for high school students. Results of operations are accounted for during the summer months as the study programs are completed and students return to the United States. Consequently, all costs are deferred during the first nine months of the year. As a result the unaudited nine month figures in the consolidated statement of earnings exclude any operations of New England Travel Corporation. The results of operations of New England Travel Corporation for the three years ended October 31, 1968 and the estimated results for the year 1969 can be summarized as follows:

17498

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Excerpts from Government's Exhibit 17

NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited as to May 31, 1969)

(1) BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the company and all subsidiaries. All material intercompany accounts and transactions have been eliminated. The accounts of the company's Canadian subsidiary, Collegiate Advertising, Ltd. have been converted at appropriate U. S. dollar equivalents. Collegiate formed a subsidiary in May 1968 which was not yet operative as of August 31, 1968, and the investment therein was therefore carried at cost at that date. The accounts of this subsidiary are included in the May 31, 1969 consolidated financial statements.

The company formed a subsidiary, International Student Marketing Corporation, in September 1968. This subsidiary had not commenced operations as of May 31, 1969 and the investment therein is carried at cost at this date.

Retroactive adjustment was made in the consolidated statement of earnings for the year 1968 for certain contract losses and for recognition of effect on deferred taxes of related net operating loss carryforwards. The net effect of the retroactive adjustment was a $2,000 decrease in net earnings for the year 1968.

As described in note 2, certain acquisitions have been included in the accompanying financial statements in accordance with the pooling of interests concept of accounting. Accordingly, operations of these acquired subsidiaries are included in the accompanying consolidated financial statements as explained in note A to the consolidated statement of earnings.

The company's cost of investment in subsidiaries exceeded its underlying equity in their net assets by $ and $ as of August 31, 1968 and May 31, 1969 (unaudited), respectively.

These differences are accounted for as follows:

	August 31, 1968	May 31, 1969 (unaudited)
Cost of investment in subsidiaries in excess of underlying value of net assets at date of acquisition	$	$
Undistributed earnings of subsidiaries from dates of acquisition		
	$	$

(2) BUSINESS ACQUIRED:

The following businesses which have been acquired by the company have been accounted for as poolings of interests (wherever shares are indicated they have been adjusted where appropriate to reflect the 2 for 1 stock split authorized by the stockholders on December 16, 1968):

(a) Compujob, Inc., was acquired on August 22, 1968 by issuance of 4,000 shares of the company's stock in exchange for all the outstanding stock of Compujob, Inc. Additional shares of the company's common stock will be issued to the former stockholders of Compujob, Inc. for five consecutive fiscal years commencing with the fiscal year ending August 31, 1969, determined annually by dividing 25 percent of the net earnings before taxes of Compujob, Inc., by the average market price of the company's common stock during the preceding month of February.

(b) On January 22, 1968 the company acquired Collegiate Advertising, Ltd. by the issuance of 260,000 shares of common stock in exchange for all the outstanding stock of Collegiate.

(c) New England Subscription Service, Inc. was acquired on January 9, 1968 by the issuance of 13,334 shares of the company's common stock in exchange for all outstanding shares of the acquired company.

(d) The company issued 120,000 shares of its common stock on July 25, 1968 in exchange for all the outstanding stock of Shaffer Enterprises, Inc.

(e) On October 9, 1968 the company issued 30,000 shares of common stock in exchange for all the outstanding stock of Lewis Brothers Ceramics, Inc. and subsidiaries. Additional shares of the company's common stock are to be issued in 1969 and 1970 to the former stockholders of Lewis Brothers to the extent of 10 percent of the net earnings of the acquired company in excess of $33,000 for each year. The value of the shares to be issued for the purpose of this calculation will be based on the average closing bid price of the company's common stock for eighty trading days ending November 15 of each year.

(f) The company issued 20,000 shares of common stock on November 13, 1968 in exchange for all the outstanding stock of Institutional Directories, Inc.

(g) The company issued 66,000 shares of its common stock on December 18, 1968 in exchange for all the outstanding stock of National Scholastic List Co., Inc.

(h) On February 6, 1969 the company acquired all the outstanding stock of New England Travel Corporation in exchange for 600,000 shares of its common stock, of which 280,000 shares are held in escrow. The escrow shares will be issued during each of the five fiscal years ending October 31, 1973 in amounts equal to twelve times net earnings of the acquired company divided by $30. Any shares remaining in escrow after October 31, 1973 will be returned to the company for cancellation.

17519

NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENT OF EARNINGS—(Concluded)

is best matched against costs directly connected with the production of this income by recording the estimated gross profit based on the percentage of time incurred to the total estimated time to be incurred by the employees in development of the over-all program for the client. Accordingly, commencing in 1968 all such programs have been accounted for on this basis upon obtaining a client commitment.

(C) Retroactive adjustment was made in the consolidated statement of earnings for the year 1968 for certain contract losses and for recognition of effect on deferred taxes of related net operating loss carryforwards. The net effect of the retroactive adjustment was a $21,000 decrease in net earnings for the year 1968.

(D) The average number of shares outstanding during each year has been adjusted: (1) for the stock split described in note 8 to the consolidated financial statements (2) to include the equivalent of the number of shares of common stock outstanding of companies acquired in certain transactions accounted for as poolings of interests and (3) to give effect to exercise of all outstanding stock options.

(E) Net sales and earnings as originally reported to stockholders in the annual report for the years 1967 and 1968 and original prospectus for the year 1966 and the amounts as shown in the summary of earnings in this proxy statement are reconciled as follows:

	1966	1967	1968
Net sales:			
Originally reported	$ 573,259	$2,386,500	$ 4,989,446
Retroactive adjustment for contract losses (note C)	—	—	(70,200)
Pooled companies reflected retroactively	2,084,915	3,266,360	6,389,164
	$2,658,174	$5,652,860	$11,308,410
Net earnings (loss):			
Originally reported	(4,510)	168,616	388,031
Retroactive adjustment for contract losses (note C)	—	—	(21,000)
Pooled companies reflected retroactively	80,059	217,019	389,429
Per summary of earnings	$ 75,549	$ 385,635	$ 756,460

3750005

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Excerpts from Government's Exhibit 17A

NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION **(Unaudited as to May 31, 1969)**

The consolidated financial statements include the accounts of the company and all subsidiaries. All material intercompany accounts and transactions have been eliminated. The accounts of the company's Canadian subsidiary, Collegiate Advertising, Ltd. have been converted at appropriate U. S. dollar equivalents. Collegiate formed a subsidiary in May 1968 which was not yet operative as of August 31, 1968, and the investment therein was therefore carried at cost at that date. The accounts of this subsidiary are included in the May 31, 1969 consolidated financial statements.

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The company's cost of investment in subsidiaries exceeded its underlying equity in their net assets by $ and $ as of August 31, 1968 and May 31, 1969 (unaudited), respectively.

These differences are accounted for as follows:

	August 31, 1968	May 31, 1969 (unaudited)
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Undistributed earnings of subsidiaries from dates of acquisition		
	$	$

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The following businesses which have been acquired by the company have been accounted for as poolings of interests (wherever shares are indicated they have been adjusted where appropriate to reflect the 2 for 1 stock split authorized by the stockholders on December 16, 1968):

(a) Compujob, Inc., was acquired on August 22, 1968 by issuance of 4,000 shares of the company's stock in exchange for all the outstanding stock of Compujob, Inc. Additional shares of the company's common stock will be issued to the former stockholders of Compujob, Inc. for five consecutive fiscal years commencing with the fiscal year ending August 31, 1969, determined annually by dividing 25 percent of the net earnings before taxes of Compujob, Inc., by the average market price of the company's common stock during the preceding month of February.

(b) On January 22, 1968 the company acquired Collegiate Advertising, Ltd. by the issuance of 260,000 shares of common stock in exchange for all the outstanding stock of Collegiate.

(c) New England Subscription Service, Inc. was acquired on January 9, 1968 by the issuance of 13,334 shares of the company's common stock in exchange for all outstanding shares of the acquired company.

(d) The company issued 120,000 shares of its common stock on July 25, 1968 in exchange for all the outstanding stock of Shaffer Enterprises, Inc.

(e) On October 9, 1968 the company issued 30,000 shares of common stock in exchange for all the outstanding stock of Lewis Brothers Ceramics, Inc. and subsidiaries. Additional shares of the company's common stock are to be issued in 1969 and 1970 to the former stockholders of Lewis Brothers to the extent of 10 percent of the net earnings of the acquired company in excess of $33,000 for each year. The value of the shares to be issued for the purpose of this calculation will be based on the average closing bid price of the company's common stock for eighty trading days ending November 15 of each year.

(f) The company issued 20,000 shares of common stock on November 13, 1968 in exchange for all the outstanding stock of Institutional Directories, Inc.

(g) The company issued 66,000 shares of its common stock on December 18, 1968 in exchange for all the outstanding stock of National Scholastic List Co., Inc.

(h) On February 6, 1969 the company acquired all the outstanding stock of New England Travel Corporation in exchange for 600,000 shares of its common stock, of which 280,000 shares are held in escrow. The escrow shares will be issued during each of the five fiscal years ending October 31, 1973 in amounts equal to twelve times net earnings of the acquired company divided by $30. Any shares remaining in escrow after October 31, 1973 will be returned to the company for cancellation.

3750026

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GOVERNMENT'S EXHIBIT 18

EASTERN AIRLINES LETTER (8/14/69)

EASTERN AIR LINES INCORPORATED / 10 ROCKEFELLER PLAZA / NEW YORK, N.Y. 10020 / 212-565-4000

FN000148

August 14, 1969

Mr. Robert C. Bushnell
National Student Marketing Corporation
345 Park Avenue
New York, New York

Dear Bob:

This is to confirm our verbal commitment given to you on May 14, 1969.

We will accept and utilize during the fiscal year, 1970, an amount of not less than $820,000 for National Student Marketing Corporation's services as offered to us in your proposal originally submitted on May 7, 1969.

We look forward to continued success in our youth marketing efforts and to our relationship with National Student Marketing Corporation.

Best regards,

Thomas E. Mullen
Manager-Special Markets

TEM:jla

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EXCERPT FROM GOVERNMENT'S EXHIBIT 21 FOR IDENTIFICATION

ASSET BINDER (8/31/69)

Eastern Continent

Prairie - Signed Letter.

Against

(1) Doesn't [illegible] - [illegible] both [illegible] each intended

(2) Documents [illegible] - [illegible] 3rd-4th [illegible]

(3) Typed [illegible] [illegible] with [illegible] [illegible] words.

(4) Seems to [illegible] 100-200 [illegible] or other [illegible] [illegible] [illegible] [illegible] [illegible]

(5) [illegible] [illegible] [illegible] [illegible] [illegible]

Detroit signed 30-40 [illegible] - [illegible] $100-1000 [illegible] [illegible]

P34

$500.

163

159 100

233 24.

315 500

315

125 111.pay 63

150

535

E 140

GOVERNMENT'S EXHIBIT 25

PROXY/FINAL

UNITED STATES OF AMERICA
SECURITIES AND EXCHANGE COMMISSION

ATTESTATION

I HEREBY ATTEST that attached is a full, true and complete copy of:

Proxy statement filed with this Commission September 30, 1969 by National Student Marketing Corporation, pursuant to the provisions of the Securities Exchange Act of 1934, as amended, under File No. 0-3211

on file in this Commission

October 11, 1974
(Date)

Charles A. Moore

CHARLES A. MOORE
RECORDS OFFICER

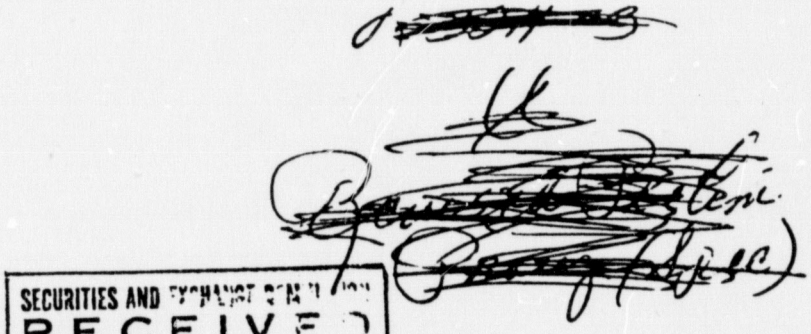
It is hereby certified that CHARLES A. MOORE, Records Officer of the Securities and Exchange Commission, Washington, D.C., which Commission was created by the Securities Exchange Act of 1934 (15 USCA Sec. 78a et seq.), is official custodian of the books and records of said Commission, and all books and records created or established by the Federal Trade Commission pursuant to the provisions of the Securities Act of 1933 and transferred to this Commission in accordance with Section 210 of the Securities Exchange Act of 1934, and was such official custodian at the time of executing the above attestation, and that he, and his subordinate, EDWARD A. WILSON, Deputy Records Officer, are authorized to execute the above attestation.

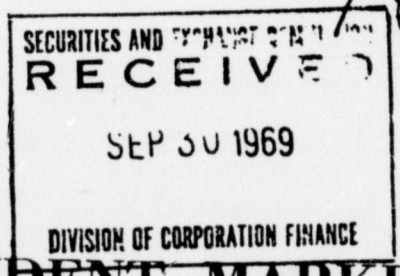
By the Commission

Secretary

E 141

Government's Exhibit 25





NATIONAL STUDENT MARKETING CORPORATION

NOTICE OF SPECIAL MEETING

October 8, 1969

and

PROXY STATEMENT

E 142

Government's Exhibit 25

0-3211-2
Orig

NATIONAL STUDENT MARKETING CORPORATION
1100 Connecticut Avenue N.W., Washington, D. C.

September 27, 1969

TO THE STOCKHOLDERS OF
NATIONAL STUDENT MARKETING CORPORATION

Dear Stockholder:

Several important proposals will be considered and voted upon at a Special Meeting of Stockholders to be held October 8, 1969. A full description of each of such proposals is contained in the accompanying Notice of Special Meeting of Stockholders and Proxy Statement, which I urge you to study carefully for complete information.

All of these proposals are strongly recommended for your approval by the management and Board of Directors. Because of their importance, you are especially encouraged to attend and vote at the forthcoming Special Meeting. However, in order to insure that your vote is counted in the event you are unable to attend the meeting, please indicate your wishes by marking the appropriate boxes on the enclosed Proxy card, sign it and return it in the enclosed return envelope. If you are able to attend the meeting, you may revoke your written Proxy and vote in person.

Sincerely yours,

CORTES W. RANDELL
President

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Government's Exhibit 25

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

A Special Meeting of Stockholders of National Student Marketing Corporation ("NSMC" or the "Corporation") will be held on Wednesday, October 8, 1969, at ten o'clock A.M. Washington, D. C. time in the Jefferson Room of The Washington Hilton Hotel, 1919 Connecticut Avenue, N. W., Washington, D. C., for the following purposes which are described more fully in the Proxy Statement accompanying this Notice:

(1) To consider and vote upon a proposed amendment to the Corporation's Articles of Incorporation to reduce the par value of the Common Stock from $.025 to $.01 per share and to increase the number of authorized shares of Common Stock from 3,000,000 to 7,500,000 shares, each of the par value of $.01;

(2) Subject to the adoption of the first proposal, to consider and vote upon a proposal to approve the Employees' Qualified Stock Option Plan (1969), in the form attached as Schedule B to the Proxy Statement accompanying this Notice;

(3) Subject to the adoption of the first proposal, to consider and vote upon a proposal to approve an agreement providing for the merger of Interstate National Corporation with and into NSMC, a copy of which agreement is attached as Schedule C to the Proxy Statement accompanying this Notice; and to authorize the officers of NSMC to take any further action necessary or advisable to make such merger effective;

(4) To consider and vote upon a proposal to approve five agreements providing for the mergers of Five-Dollar-A-Day Tours, Inc., Frommer-Pasmantier Publishing Corporation, Mar-Clay Mills, Inc., Mailbag International, Inc. and MII Services, Inc., respectively, with and into NSMC, copies of which agreements are attached as schedules D, E, F, G and H, respectively, to the Proxy Statement accompanying this Notice; and to authorize the officers of NSMC to take any further action necessary or advisable to make such mergers effective; and

(5) To transact such other business, if any, as may properly be brought before the meeting.

In accordance with the By-Laws and resolutions of the Board of Directors, only stockholders of record at the close of business on September 3, 1969 are entitled to notice of and to vote at the meeting. The transfer books of the Corporation will not be closed.

By Order of the Board of Directors,

Washington, D. C.
September 27, 1969.

JOHN GLANDON DAVIES,
Secretary

ALL STOCKHOLDERS ARE REQUESTED TO FILL IN AND SIGN THE ENCLOSED PROXY AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE TO THE CORPORATION SO THAT THEIR STOCK MAY BE VOTED. THE ENVELOPE REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES.

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Government's Exhibit 25

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Government's Exhibit 25

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SCHEDULE B—Employees' Qualified Stock Option Plan (1969)

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Government's Exhibit 25

SCHEDULE C—Agreement and Plan of Merger dated as of the 13th day of August, 1969 by and between National Student Marketing Corporation and Interstate National Corporation

SCHEDULE D—Agreement and Plan of Merger dated the 11th day of June, 1969 by and between National Student Marketing Corporation and Five-Dollar-A-Day Tours, Inc.

SCHEDULE E—Agreement and Plan of Merger dated the 11th day of June, 1969 by and among National Student Marketing Corporation and Frommer-Pasmantier Publishing Corporation

SCHEDULE F—Agreement and Plan of Merger dated as of the 8th day of August, 1969 by and between National Student Marketing Corporation and Mar-Clay Mills, Inc.

SCHEDULE G—Agreement and Plan of Merger dated August 8, 1969 by and between National Student Marketing Corporation and Mailbag International, Inc.

SCHEDULE H—Agreement and Plan of Merger dated August 8, 1969 by and between National Student Marketing Corporation and MII Services, Inc.

SCHEDULE I—Rights of Dissenting Shareholders Under the District of Columbia Business Corporation Act

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NATIONAL STUDENT MARKETING CORPORATION

SPECIAL MEETING OF STOCKHOLDERS

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of the enclosed proxy by the management of National Student Marketing Corporation for use at a Special Meeting of Stockholders of the Corporation to be held on October 8, 1969 at 10 o'clock A.M. Washington, D.C. time and at any adjournment or adjournments thereof. The proxy may be revoked by a stockholder by notice to the Corporation at any time before it is voted. Unless revoked, shares represented by valid proxies will be voted on all matters to be acted upon at the meeting, and on any matter or matters with respect to which the proxy contains instructions for voting such shares will be voted in accordance with such instructions.

The cost of solicitation of proxies will be borne by the Corporation. The Corporation will request banks and brokers to solicit their customers who have a beneficial interest in the Corporation's stock registered in the names of nominees and will, upon request, reimburse such banks and brokers for their reasonable out-of-pocket expenses of such solicitations. In addition to the use of the mails, solicitations may be made by employees of the Corporation by telephone, telegraph and personal interview. The Corporation does not expect to pay compensation to any individual for the solicitation of proxies.

At the close of business on September 3, 1969 the Corporation had outstanding 2,904,555 shares of Common Stock, par value $.025 (exclusive of 7,001 shares held in the treasury), which will be entitled to vote at the Special Meeting. Each such share of Common Stock is entitled to one vote.

On September 3, 1969, Mr. Cortes W. Randell owned beneficially and of record 459,950 shares of Common Stock, which represented approximately 15.8% of the voting securities of the Corporation then outstanding. Mr. Randell has expressed his intention to vote all of the shares of Common Stock owned beneficially and of record by him in favor of each proposal below. The holders of record and beneficially of 191,000 shares of Common Stock have also expressed their intention to vote such shares in favor of Proposal 1 below. In addition, specific commitments in writing have been obtained from the holders of record and beneficially of 1,089,004 shares of Common Stock with respect to their approving Proposal 1 below. The total number of shares to be voted in favor of Proposal 1 below pursuant to the above commitments aggregates 1,739,954 shares or 59.9% of the outstanding voting stock of the Corporation.

1. REDUCTION IN PAR VALUE OF AND INCREASE IN AUTHORIZED COMMON STOCK

The Board of Directors recommends that the stockholders approve at the Special Meeting an amendment to the Corporation's Articles of Incorporation, the text of which is included in Schedule A hereto. Such amendment would reduce the par value of the Common Stock from $.025 to $.01 per share and increase the number of authorized shares of Common Stock from 3,000,000 to 7,500,000 shares, each of the par value of $.01.

The authorized capital stock of the Corporation presently consists of 3,000,000 shares of Common Stock, par value $.025 per share, of which, as noted above, 2,904,555 shares were issued and outstanding at the close of business on September 3, 1969. Existing and proposed commitments to issue the remaining authorized but unissued shares of Common Stock and a portion of the increased number of such shares resulting upon the effectiveness of the proposed amendment are as follows:

(1) A maximum of 200,000 shares of Common Stock may be issued upon the exercise of options granted or to be granted pursuant to the Employees Qualified Stock Option Plan (1968) and Employees Qualified Stock Option Plan B (1968), both of which plans have been previously adopted by the stockholders.

(2) A maximum of 50,000 shares of Common Stock may be issued pursuant to "earn out" provisions contained in agreements relating to past acquisitions.

(3) Pursuant to an Agreement and Plan of Reorganization dated as of January 31, 1969 among NSMC and all of the stockholders of Impressions By M. Inc., NSMC is required to deliver, within five days after the filing of Articles of Amendment to the Articles of Incorporation of NSMC increasing the number of authorized shares of Common Stock, an additional 297,000 shares of such stock to such former stockholders of Impressions By M. Inc. At the time of the closing of such transaction the number of authorized but unissued shares of Common Stock was insufficient to complete the transaction without partial deferment of delivery of the Common Stock due under the agreement.

(4) Pursuant to an agreement between NSMC and Cortes W. Randell, NSMC borrowed from Mr. Randell 110,000 shares of NSMC Common Stock owned by him in order to complete the acquisition of Impressions By M. Inc. on April 24, 1969. Under a separate agreement between NSMC and Mr. Randell, NSMC borrowed from Mr. Randell 130,000 shares of NSMC Common Stock owned by him to enable NSMC to raise requisite working capital through a sale of such shares pursuant to certain Stock Purchase Agreements dated May 8, 1969 with certain institutions. Pursuant to such agreements between NSMC and Mr. Randell, NSMC is required to issue, within five days after the filing of Articles of Amendment to the Articles of Incorporation of NSMC increasing the number of authorized shares of Common Stock, an aggregate of 240,000 shares of such stock to Mr. Randell.

(5) If the Employees' Qualified Stock Option Plan (1969) is adopted at this Special Meeting, a maximum of 100,000 shares of Common Stock may be issued upon the exercise of options granted or to be granted thereunder. See Proposal 2 for a description of such plan.

(6) If the merger of Interstate National Corporation into NSMC is consummated, a maximum of 1,000,000 shares of Common Stock may be issued in connection with such transaction. See Proposal 3(a) for a description of such transaction.

(7) If the mergers of Five-Dollar-A-Day-Tours, Inc. and Frommer-Pasmantier Publishing Corporation into NSMC are consummated, 249,651 shares of Common Stock will be issued in connection with such transactions of which 73,500 shares will be deposited in escrow subject to possible return in the event of Loss or Earnings Deficiency as defined and 49,000 shares will be deposited in escrow subject to possible return in the event of no declines in the market value of NSMC Common Stock. See Proposal 3(b) for a description of such transactions.

(8) If the merger of Mar-Clay Mills, Inc. into NSMC is consummated, 300,000 shares of Common Stock will be issued in connection with such transaction of which 140,000 shares will be deposited in escrow subject to possible return in the event of Loss or Earnings Deficiency as defined. See Proposal 3(c) for a description of such transaction.

(9) If the mergers of Mailbag International, Inc. and MII Services, Inc., into NSMC are consummated, 90,434 shares of Common Stock will be issued in connection with such transactions of which 9,044 shares will be deposited in escrow to protect NSMC against defined losses. See Proposal 3(d) for a description of such transactions.

(10) NSMC has entered into an Agreement and Plan of Merger dated July 24, 1969 with Plains Publications of Lubbock, Inc., a Texas corporation ("Plains"), pursuant to which Plains will be merged with and into NSMC. In connection with such transaction, the stockholder of Plains will receive from NSMC $125,000 in cash and $1,206,734 in NSMC Common Stock valued at the average of the bid and asked prices of NSMC Common Stock on the over-the-counter market for the 30 trading days preceding the Effective Date of the merger. The Effective Date of the merger has been postponed until after December 31, 1969 in order to afford NSMC an opportunity of receiving and reviewing year-end financial statements of Plains. Approval of such merger will be sought from NSMC stockholders at the Annual Meeting of Stockholders in December, 1969.

(11) NSMC has entered into an Agreement and Plan of Reorganization dated April 16, 1969 with Pennsbury Pottery, Inc., a Pennsylvania corporation ("Pennsbury"), pursuant to which NSMC will acquire all of the outstanding common stock of Pennsbury in exchange for 5,216 shares of NSMC Common Stock.

Except for the issuances of shares of Common Stock referred to above, neither the Corporation nor any of its officers or directors has entered into any understanding or agreement which contemplates the issuance or sale of any of the shares of Common Stock. However, transactions which may involve the issuance of Common Stock are continually under review by management.

A substantial portion of the Corporation's growth under management's program of broadening and diversifying operations in the youth market has been accomplished by the acquisition of going businesses in related fields. Accordingly, the Board believes that it is desirable and in the best interests of the Corporation and its stockholders to have additional shares of Common Stock available for whatever corporate purposes and opportunities may hereafter develop including possible acquisitions, equity financings, stock dividends or stock splits. Except as otherwise provided by statute or rule, adoption of the proposed amendment will save the time and expense of calling and holding special stockholders' meetings in each instance where the need for additional shares of Common Stock may arise.

The proposed reduction in par value will have the effect of decreasing the Common Stock account by an amount equal to $.015 times the number of shares issued and outstanding upon the effectiveness of the proposed amendment and will increase the Additional Paid-in Capital account by the same amount, but will have no effect on the sum of such accounts nor on the Retained Earnings of the Corporation nor other characteristics of the Common Stock.

If the proposed amendment to the Articles of Incorporation described herein is approved by stockholders, it is expected that Articles of Amendment in substantially the form set forth as Schedule A to this Proxy Statement will be filed at the close of business on October 8, 1969, in the office of the Commissioners of the District of Columbia, and will become effective at that time. The outstanding certificates representing Common Stock, par value $.025 per share, of the Corporation immediately prior to the effectiveness of such amendment should not be returned to the Corporation. Upon the effectiveness of such amendment each certificate representing Common Stock of the par value of $.025 per share will continue to represent the same number of shares of Common Stock of the par value of $.01 per share and should be retained. As such certificates are presented for transfer they will be replaced by certificates indicating a par value of $.01 per share.

The affirmative vote of the holders of two-thirds of the outstanding shares of Common Stock entitled to vote is required to amend the Articles of Incorporation in order to give effect to the increase in the number of authorized shares of Common Stock and reduction in par value.

The Board of Directors recommends that the stockholders vote "FOR" the proposal to amend the Articles of Incorporation to effect the increase in number of authorized shares of Common Stock and reduction in par value. Proxies solicited by management will be voted "FOR" the adoption of the amendment unless stockholders indicate in their proxies their desire to have their shares voted to the contrary.

2. ADOPTION OF QUALIFIED STOCK OPTION PLAN (1969)

Proposed New Plan.

The Board of Directors has found that the granting of stock options constitutes one of the most effective methods of recruiting and retaining competent management personnel. Stock options also serve to provide greater incentive, and to strengthen the identity of interests between key employees and the Corporation. For this reason on January 5, 1968 the Board of Directors adopted an Employees' Qualified Stock Option Plan (1968) (the "Plan"). The stockholders approved such Plan on the same day. Pursuant to such Plan, the Board of Directors was authorized to grant qualified stock options to purchase

up to 100,000 present shares of Common Stock, which may be treasury shares or authorized but unissued shares, to key employees of the Corporation, as recommended by the Stock Option Plan Committee. As of August 12, 1969, qualified stock options under such Plan to purchase 73,500 shares of Common Stock were outstanding.

On July 24, 1968 the Executive Committee adopted a second qualified stock option plan, entitled the Employees' Qualified Stock Option Plan B (1968) ("Plan B"), subject to stockholder approval. Such action was ratified by the Board of Directors on September 18, 1968 and approved by stockholders at the December 16, 1968 Annual Meeting of Stockholders. Under Plan B the Board of Directors, upon recommendation of the Stock Option Plan Committee, was authorized to grant options to key employees to purchase 100,000 present shares of Common Stock, which may be treasury shares or authorized but unissued shares. As of August 12, 1969, qualified stock options under the Plan B to purchase 91,300 shares of Common Stock were outstanding.

On January 17, 1969, the Board of Directors adopted a new plan, Employees Qualified Stock Option Plan (1969) ("1969 Plan") which is in all material respects identical to the Plan and Plan B referred to above. Under the 1969 Plan, the Board of Directors, upon recommendation of the Stock Option Plan Committee, may grant options to key employees to purchase up to 100,000 shares of Common Stock, which may be treasury shares or authorized but unissued shares.

Options granted under the 1969 Plan may not be exercised prior to two years or later than five years from the date of grant. An option is exercisable by the holder thereof in whole or in part, except that each partial exercise of an option must be for at least 50 shares or for all the remaining shares thereunder, whichever is less.

The options are not transferable other than by will or by the laws of descent and distribution, and during the grantee's lifetime shall be exercisable only by such grantee. Directors of the Corporation who are not regular employees thereof or any of its subsidiaries will not be eligible to participate in the 1969 Plan.

The 1969 Plan provides that the purchase price of the shares purchased pursuant to the exercise of any option shall be 100% of the fair market value of the Common Stock on the date on which the option was granted or such higher price as the Stock Option Plan Committee may establish as to any or all shares subject to the option. Payment in full of the purchase price for the shares purchased pursuant to the exercise of any option will be made upon exercise of the option. All shares sold under the 1969 Plan shall be fully paid and non-assessable. Proceeds received from the sale of shares pursuant to the 1969 Plan will be used for general corporate purposes.

Shares acquired by exercise of an option may not be transferred without such shares being first offered to the Corporation at the then current fair market value. In the event that the grantee ceases to be an employee of the Corporation after such grantee has exercised an option to purchase any or all of the shares subject to the option, he shall likewise first offer his shares to the Corporation at the then current fair market value.

The grantee is required upon exercise of any option or portion thereof to represent that shares purchased under the 1969 Plan will not be assigned, transferred, pledged or hypothecated or be subject to execution, attachment or similar process so as to interfere with the rights of the Corporation to repurchase such shares.

If any change occurs in the stock subject to the 1969 Plan, through subdivision, consolidation, capital adjustment, stock dividend, stock split or other change in the corporate structure, the Board of Directors shall make appropriate adjustments in the aggregate number of shares subject to the 1969 Plan and in the number and price of shares subject to outstanding options.

The Board of Directors may terminate the 1969 Plan at any time, and unless sooner terminated it will terminate on January 16, 1979. No such suspension or termination will affect options theretofore granted.

The Board of Directors also reserves the right to amend or revise the 1969 Plan with respect to any shares as to which options have not been granted without further approval by stockholders, except that the Board will not, without such approval, change the maximum number of shares which may be issued under the 1969 Plan, reduce the option price per share below the minimum price set forth above, change the class of employees eligible to participate or extend the term of the 1969 Plan, except as referred to above.

Options to purchase 93,675 shares of Common Stock at prices ranging from $27 to $42 per share have been granted under the 1969 Plan, subject to approval of the 1969 Plan by the stockholders at the Special Meeting.

It is intended that options granted under the 1969 Plan will constitute "qualified stock options" as defined in Section 422 of the Internal Revenue Code. If an employee holds the stock purchased upon exercise of an option for three years, he will realize no income for Federal income tax purposes upon the granting or exercise of the option, and upon a sale of such shares after such three year holding period he will realize a long-term capital gain or loss equal to the difference between the amount realized upon such sale and the purchase price paid upon exercise of such option. If the stock is held for such three year period, the Corporation will not be entitled to any deductions for Federal income tax purposes.

Previously Granted Options

The following table sets forth information with respect to all qualified stock options and all other options granted during the period from May 20, 1966, the date of incorporation of the Corporation, through August 12, 1969, to (a) each director and (b) all directors and officers of the Corporation as a group during such period.

Name of Individual or Identity of Group	No. of Shares*	Date of Grant	Price Per Share	Expiration Date
Ralph P. Hoagland, III	2,500(1)	1/ 9/68	$ 6.00	12/31/71
John G. Davies	2,600(2)	12/ 5/68	29.50	12/ 4/73
	7,400(2)	1/13/69	27.00	1/12/74
James F. Joy	3,000(3)	6/30/69	41.00	6/29/74
All Officers and Directors as a Group	4,000(4)	5/10/68	7.50	5/ 9/73
	7,000(4)	5/20/68	10.00	5/19/73
	8,000(2)	7/25/68	18.75	7/24/73
	1,850(2)	8/ 1/68	18.50	7/31/73
	2,000(2)	8/ 2/68	19.50	8/ 1/73
	6,000(2)	12/ 1/68	29.50	11/30/73
	3,000(2)	12/ 5/68	29.50	12/ 4/73
	4,000(2)	1/13/69	27.00	1/12/74
	7,000(3)	3/24/69	37.00	3/23/74
	1,150(3)	4/28/69	38.50	4/27/74
	1,750(3)	7/ 2/69	41.50	7/ 1/74

* Adjusted to reflect 2 for 1 stock split on December 19, 1968.

(1) Non-transferable options were granted to Mr. Hoagland and his wife in connection with the acquisition of New England Subscription Service, Inc. Mr. Hoagland disclaims any beneficial interest in such option to purchase 2,500 shares granted to his wife and a qualified stock option to purchase 1,000 shares of Common Stock granted to her on February 29, 1968 as an employee of New England Subscription Service, Inc. Mr. Hoagland was a director of the Corporation until September 1968.

(2) Qualified stock options granted under Qualified Stock Option Plan B (1968).

(3) Qualified stock options granted under Qualified Stock Option Plan (1969).

(4) Qualified stock options granted under Qualified Stock Option Plan (1968).

No options granted by the Corporation have been exercised.

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During the period from May 20, 1966 through August 12, 1969 employees of the Corporation were granted options under the three Qualified Stock Option Plans to purchase an aggregate of 293,675 shares of the Corporation's Common Stock at option prices ranging from $3 to $42, including terminated options covering 35,450 shares.

The affirmative vote of two-thirds of the outstanding shares of Common Stock of the Corporation is required to adopt the 1969 Plan.

The Board of Directors recommends adoption by the stockholders of the Qualified Stock Option Plan (1969) in order that the Corporation may continue to enable key employees contributing to the success of the Corporation to obtain a proprietary interest in the Corporation and ensure thereby a high degree of management incentive. Proxies solicited by management will be voted "FOR" the adoption of the 1969 Plan unless stockholders indicate in their proxies their desire to have their shares voted to the contrary.

3. MERGER PROPOSALS

NSMC has entered into several agreements providing for the mergers of the following companies with and into NSMC: Interstate National Corporation, Five-Dollar-A-Day Tours, Inc., Frommer-Pasmantier Publishing Corporation, Mar-Clay Mills, Inc., Mailbag International, Inc. and MII Services, Inc. Each merger is described in more detail below. In the opinion of the Board of Directors of NSMC the proposed acquisitions represent sound diversification of NSMC's present products and services and will further strengthen NSMC's corporate structure. It is believed that NSMC's access to the youth market will materially increase the sales of the companies acquired. Such companies represent businesses such as insurance, travel, direct mail solicitation and hosiery. Approval of the acquisition program requires the affirmative vote of the holders of two-thirds of the outstanding shares of Common Stock of NSMC. Each of the merger agreements described below has been unanimously approved by the Board of Directors of NSMC.

According to the terms of each agreement described below, NSMC may terminate such agreement if the holders of more than 2% of the outstanding Common Stock of NSMC vote against approving such agreement and exercise their rights as dissenting stockholders under Section 73 of the Business Corporation Act of the District of Columbia (attached hereto as Schedule I).

Although each proposed merger requires the approval of the stockholders of the companies to be merged into NSMC, the holders of all the outstanding stock of each of such companies, except Interstate National Corporation, are parties and signatories to the merger agreements. The agreement with Interstate National Corporation requires the affirmative vote of the holders of a majority of outstanding shares of Interstate Common and Preferred Stock voting as separate classes. The Board of Directors of Interstate National Corporation has unanimously approved the merger and recommended to the Interstate stockholders that they vote in favor of it. Any dissenting stockholder of Interstate National Corporation who complies with Chapter 78.505 of the Domestic Corporation Law of the State of Nevada, and who votes against the merger, files a written objection to the merger at or prior to the vote and demands payment for his shares shall be entitled to receive from NSMC the cash value of his Interstate shares.

NSMC believes that the consummation of the proposed mergers will not result in any recognizable gain or loss for federal income tax purposes to either NSMC or to the holders of any of its outstanding shares, except for stockholders who exercise their statutory appraisal rights.

The following pages contain financial information with respect to NSMC and the combined companies which will result from the proposed mergers in the event that (i) the Interstate merger is approved by the Interstate stockholders and (ii) the Interstate merger is not so approved. See "Index to Financial Statements" on page F-1 with respect to the location of particular financial statements.

Your Board recommends that you vote "FOR" approval of each of the agreements described below.

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NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES, INTERSTATE NATIONAL CORPORATION AND SUBSIDIARIES, THE FROMMER GROUP OF COMPANIES, MAR-CLAY MILLS, INC. AND THE MAILBAG GROUP OF COMPANIES

PRO FORMA COMBINED STATEMENT OF EARNINGS

(Unaudited)

The following pro forma combined statement of earnings has been prepared by combining, as described in note C below, the consolidated statement of earnings of National Student Marketing Corporation and subsidiaries with the statements of earnings of Interstate National Corporation and subsidiaries, the Frommer Group of Companies, Mar-Clay Mills, Inc., and the Mailbag Group of Companies. This pro forma statement, the compilation of which has been reviewed by Peat, Marwick, Mitchell & Co., independent certified public accountants, as set forth in their report appearing elsewhere in this proxy statement, should be read in conjunction with the financial statements and notes thereto of the respective companies.

	Year (Note A)					Nine months ended May 31, or June 30, (Note A)	
	1964	1965	1966	1967	1968	1968	1969
Income:							
Services	$ 1,104,403	$ 3,309,769	$ 4,470,203	$ 7,730,365	$10,675,540	$ 4,908,615	$ 6,064,803
Sale of products	1,956,965	1,671,693	2,280,350	4,123,312	7,829,959	4,700,132	12,189,499
Insurance premium income	9,226,144	11,202,004	12,868,039	14,334,710	14,688,046	10,067,280	10,729,954
Commissions	1,923,068	2,141,369	2,395,116	2,503,835	2,749,231	2,111,856	3,106,629
Management fees	69,126	70,435	77,616	174,764	291,424	132,046	135,017
Net investment income	558,621	665,011	887,564	970,340	1,057,305	737,749	943,874
Other	73,713	88,971	(70,980)	145,108	183,696	292,615	159,257
Total income	14,912,040	19,149,252	22,907,908	29,982,434	37,475,201	22,950,293	33,329,033
Costs and expenses:							
Cost of sales	2,364,858	3,866,921	4,986,444	7,926,373	12,417,459	6,230,934	11,598,656
Losses and loss adjustment expenses incurred	6,206,338	7,641,200	8,531,476	9,550,363	9,275,699	6,492,790	6,731,454
Commissions and brokerage	1,181,461	1,468,185	1,561,455	1,988,157	2,798,775	1,737,204	1,763,002
Selling, general and administrative expenses	5,090,981	6,085,327	7,388,911	9,362,948	10,851,360	7,316,620	10,116,847
Total costs and expenses	14,843,638	19,061,633	22,468,286	28,827,841	35,343,293	21,777,548	30,209,959
Operating income	68,402	87,619	439,622	1,154,593	2,131,908	1,172,745	3,119,074
Other income	3,710	23,351	34,929	18,074	18,926	20,413	29,720
	72,112	110,970	474,551	1,172,667	2,150,834	1,193,158	3,148,794
Other deductions:							
Interest	31,018	24,393	50,567	109,366	148,531	98,222	312,573
Other	—	553	19,151	30,712	2,089	4,467	949
Total other deductions	31,018	24,946	69,718	140,078	150,620	102,689	313,522
Earnings before income taxes and extraordinary items	41,094	86,024	404,833	1,032,589	2,000,214	1,090,469	2,835,272
Provision for taxes on income:							
Federal and state—current	—	—	135,853	407,338	560,473	265,125	854,360
Federal and state—deferred	28,104	26,310	—	34,000	241,769	121,500	288,388
Canadian—current	—	—	—	5,580	21,620	22,706	—
Total taxes	28,104	26,310	135,853	446,918	823,862	409,331	1,142,748
Earnings before elimination of portion of earnings of company being acquired accounted for as a part purchase, part pooling of interests	$ 12,990	$ 59,714	$ 268,980	$ 585,671	$ 1,176,352	$ 681,138	$ 1,692,524

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NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES, INTERSTATE NATIONAL CORPORATION AND SUBSIDIARIES, THE FROMMER GROUP OF COMPANIES, MAR-CLAY MILLS, INC. AND THE MAILBAG GROUP OF COMPANIES

PRO FORMA COMBINED STATEMENT OF EARNINGS, Continued

(UNAUDITED)

	Year (Note A)					Nine months ended May 31, or June 30, (Note A)	
	1964	1965	1966	1967	1968	1968	1969
Earnings before elimination of portion of earnings of company being acquired accounted for as a part purchase, part pooling of interests brought forward	$ 12,990	$ 59,714	$ 268,980	$ 585,671	$1,176,352	$ 681,138	$1,692,524
Elimination of portion of earnings of company being acquired accounted for as a part purchase, part pooling of interests (Note C)	15,193	8,154	9,959	62,227	18,188	9,832	57,712
Earnings (loss) before extraordinary items	(2,203)	51,560	259,021	523,444	1,158,164	671,306	1,634,812
Extraordinary items:							
Federal income tax reduction:							
Carryforward of prior years' operating loss	—	—	600	7,000	116,418	93,519	167,767
Reduction of provision for deferred Federal income tax as a result of net operating losses	—	—	—	—	188,750	100,000	376,123
Net realized gain on investments, net of Federal tax of $24,500 in 1969	482,593	233,195	13,156	42,697	127,487	40,683	117,922
Reduction in value of investment in wholly-owned subsidiary	—	—	—	—	(77,496)	—	—
Elimination of portion of extraordinary item of company being acquired accounted for as part purchase, part pooling of interests (Note C)	—	—	—	—	(28,674)	—	—
Net extraordinary items	482,593	233,195	13,756	49,697	326,485	234,202	661,812
Net earnings before pro forma adjustments	480,390	284,755	272,777	573,141	1,484,649	905,508	2,296,624
Pro forma adjustment—executive profit-sharing, net of Federal income taxes (Note B)	147,445	141,201	140,982	150,650	131,680	116,386	13,168
Net earnings after pro forma adjustment	$ 627,835	$ 425,956	$ 413,759	$ 723,791	$1,616,329	$1,021,894	$2,309,792
Average shares of common stcok or common stock equivalents (Note D)	1,869,706	2,811,432	3,166,938	3,563,716	3,779,213	3,666,913	4,238,436
Earnings per share (Note D):							
Earnings before extraordinary items	$ —	$ .02	$ .08	$ .15	$ .31	$ .18	$ .39
Extraordinary items	.26	.08	.01	.01	.09	.06	.16
Net earnings before pro forma adjustment	.26	.10	.09	.16	.40	.24	.55
Pro forma adjustment of executive profit sharing net of Federal income tax (Note B)	.08	.05	.04	.04	.03	.03	—
Net earnings after pro forma adjustment	$ .34	$ .15	$ .13	$ .20	$ .43	$ .27	$ .55
Book value per share							$4.58

NOTES:

(A) The pro forma combined statement of earnings includes various fiscal years of the respective companies included therein. Reference should be made to the statements of earnings of the individual companies (including subsidiaries when applicable) for additional information in this regard.

(B) The pro forma adjustment reflects the elimination (net of tax) of the cost of bonuses paid to certain officers of Geo. F. Brown & Sons, Inc. (a subsidiary of Interstate National Corporation) under an agreement discontinued on October 31, 1968. These individuals have signed employment agreements which provide for remuneration equivalent to the approximate amounts of previous salaries excluding bonuses.

(C) The financial statements of the companies included in the pro forma combined statement of earnings have been combined on a pooling of interests basis except for the Mailbag Group of Companies which is included as a partial pooling (63%) and a partial purchase (37%). For additional information concerning the pro forma accounting treatment given the Mailbag acquisition, reference should be made to the notes to the pro forma combined balance sheets included elsewhere in the proxy statement.

(D) Earnings per share have been computed on average National Student Marketing Corporation shares of common stock outstanding after giving effect to the proposed exchanges of its shares for the acquisition of the companies included with National Student Marketing Corporation in the pro forma combined statement of earnings, based on average shares outstanding of the individual companies. The computation does not include additional shares of National Student Marketing Corporation which may be released from escrow for incremental earnings of proposed acquisition companies in future periods or as guarantees for market price fluctuations in National Student Marketing Corporation common stock (see notes to the pro forma combined balance sheet included elsewhere in the proxy statement). There would be no material reduction in earnings per share on a fully diluted basis.

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NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES, THE FROMMER GROUP OF COMPANIES, MAR-CLAY MILLS, INC. AND THE MAILBAG GROUP OF COMPANIES

PRO FORMA COMBINED STATEMENT OF EARNINGS

(Unaudited)

The following pro forma combined statement of earnings has been prepared by combining, as described in note B below, the consolidated statement of earnings of National Student Marketing Corporation and subsidiaries with the statements of earnings of the Frommer Group of Companies, Mar-Clay Mills, Inc., and the Mailbag Group of Companies. This pro forma statement, the compilation of which has been reviewed by Peat, Marwick, Mitchell & Co., independent certified public accountants, as set forth in their report appearing elsewhere in this proxy statement, should be read in conjunction with the financial statements and notes thereto of the respective companies.

	Year (Note A)					Nine months ended May 31	
	1964	1965	1966	1967	1968	1968	1969
Income:							
Services	$1,104,403	$3,309,769	$4,470,203	$ 7,730,365	$10,675,540	$4,908,615	$ 6,064,803
Sale of products	1,956,965	1,671,693	2,280,350	4,123,312	7,829,959	4,700,132	12,189,499
Commissions	—	42,268	40,574	38,144	43,743	85,064	764,679
Total income	3,061,368	5,023,730	6,791,127	11,891,821	18,549,242	9,693,811	19,018,981
Costs and expenses:							
Cost of sales	2,364,858	3,866,921	4,986,444	7,926,373	12,417,459	6,239,934	11,598,656
Selling, general and administrative expenses	619,028	1,074,894	1,760,042	2,982,591	4,403,809	2,303,755	5,454,405
Total costs and expenses	2,983,886	4,941,815	6,746,486	10,908,964	16,821,268	8,534,689	17,053,061
Operating income	77,482	81,915	44,641	982,857	1,727,974	1,159,122	1,965,920
Other income	3,710	23,351	34,929	18,074	18,926	20,413	29,720
	81,192	105,266	79,570	1,000,931	1,746,900	1,179,535	1,995,640
Other deductions:							
Interest	31,018	24,393	50,567	109,366	148,531	98,222	312,573
Other	—	553	19,151	30,712	2,089	4,467	949
Total other deductions	31,018	24,946	69,718	140,078	150,620	102,689	313,522
Earnings before income taxes and extraordinary items	50,174	80,320	9,852	860,853	1,596,280	1,076,846	1,682,118
Provision for taxes on income:							
Federal and state—current	—	—	66,853	407,338	534,473	283,925	531,650
Federal and state—deferred	21,104	20,310	—	41,000	241,769	121,500	288,388
Canadian—current	—	—	—	5,580	21,620	22,706	—
Total taxes	21,104	20,310	66,853	453,918	797,862	428,131	820,038
Earnings before elimination of portion of earnings of company being acquired accounted for as a part purchase, part pooling of interests	$ 29,070	$ 60,010	$ (57,001)	$ 406,935	$ 798,418	$ 648,715	$ 862,080

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NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES, THE FROMMER GROUP OF COMPANIES, MAR-CLAY MILLS, INC. AND THE MAILBAG GROUP OF COMPANIES

PRO FORMA COMBINED STATEMENT OF EARNINGS, Continued

(Unaudited)

	Year (Note A)					Nine months ended May 31	
	1964	1965	1966	1967	1968	1968	1969
Earnings before elimination of portion of earnings of company being acquired accounted for as a part purchase, part pooling of interests brought forward	$ 29,070	$ 60,010	$ (57,001)	$ 406,935	$ 798,418	$ 648,715	$ 862,080
Elimination of portion of earnings of company being acquired accounted for as a part purchase, part pooling of interests (Note B)	15,193	8,154	9,959	62,227	18,188	9,832	57,712
Earnings (loss) before extraordinary items	13,877	51,856	(66,960)	344,708	780,230	638,883	804,368
Extraordinary items:							
Federal income tax reduction:							
Carryforward of prior years' operating loss	—	—	600	7,000	116,418	93,519	167,767
Reduction of provision for deferred Federal income tax as a result of net operating losses	—	—	—	—	188,750	100,000	288,388
Reduction in value of investment in wholly-owned subsidiary	—	—	—	—	(77,496)	—	—
Elimination of portion of extraordinary item of company being acquired accounted for as part purchase, part pooling of interests (Note B)	—	—	—	—	(28,674)	—	—
Net extraordinary items	—	—	600	7,000	198,998	193,519	456,155
Net earnings	$ 13,877	$ 51,856	$ (66,360)	$ 351,708	$ 979,228	$ 832,402	$ 1,260,523
Average shares of common stock or common stock equivalents (Note C)	972,826	1,915,552	2,342,826	2,750,826	2,958,826	2,846,526	3,417,535
Earnings per share (Note C):							
Earnings before extraordinary items	$.01	$.03	$(.03)	$.13	$.26	$.22	$ .24
Extraordinary items	—	—	—	—	.07	.07	.13
Net earnings	$.01	$.03	$(.03)	$.13	$.33	$.29	$ .37
Book value per share							$2.71

NOTES:

(A) The pro forma combined statement of earnings includes various fiscal years of the respective companies included therein. Reference should be made to the statements of earnings of the individual companies (including subsidiaries when applicable) for additional information in this regard.

(B) The financial statements of the companies included in the pro forma combined statement of earnings have been combined on a pooling of interests basis except for the Mailbag Group of Companies which is included as a partial pooling (63%) and a partial purchase (37%).

(C) Earnings per share have been computed on average National Student Marketing Corporation shares of common stock outstanding after giving effect to the proposed exchanges of its shares for the acquisition of the companies included with National Student Marketing Corporation in the above pro forma combined statement of earnings, based on average shares outstanding of the individual companies. The computation does not include additional shares of National Student Marketing Corporation which may be released from escrow for incremental earnings of proposed acquisition companies in future periods or as guarantees for market price fluctuations in National Student Marketing Corporation common stock. There would be no material reduction in earnings per share on a fully diluted basis.

COMPARATIVE PER SHARE DATA

The following tabulation sets forth comparative information for National Student Marketing Corporation and subsidiaries (NSMC) and Interstate National Corporation and subsidiaries with respect to dividends, book value and historical earnings per share, the pro forma earnings per share of NSMC Common Stock and for the equivalent number of shares of NSMC Common Stock to be issued in exchange for the shares of acquisition companies. The following tabulation also includes comparative information with respect to the bid price of the Common Stock of National Student Marketing Corporation and Interstate National Corporation.

	Years					Nine Months	
Earnings per share:	1964	1965	1966	1967	1968	1968	1969
National Student Marketing Corporation and Subsidiaries:							
Actual:							
Net earnings (loss) before extraordinary credit	$(.01)	$ .01	$ .04	$ .16	$ .22	$ .19	$ .14
Extraordinary credit	—	—	—	—	.08	.04	.10
Net earnings (loss)	(.01)	.01	.04	.16	.30	.23	.24
Pro forma on a pooling of interests basis:							
Including all the proposed acquisition companies:							
Earnings (loss) before extraordinary items	—	.02	.08	.15	.31	.18	.39
Extraordinary items	.26	.08	.01	.01	.09	.06	.16
Net earnings before pro-forma adjustment	.26	.10	.09	.16	.40	.24	.55
Pro-forma adjustment	.08	.05	.04	.04	.03	.03	—
Net earnings after pro-forma adjustment	.34	.15	.13	.20	.43	.27	.55
Including all proposed acquisition companies except Interstate:							
Earnings (loss) before extraordinary items	.01	.03	(.03)	.13	.26	.22	.24
Extraordinary items	—	—	—	—	.07	.07	.13
Net earnings	.01	.03	(.03)	.13	.33	.29	.37
Interstate National Corporation and Subsidiaries:							
Actual (note B):							
Earnings before extraordinary items	(.01)	—	.26	.15	.31	.03	.67
Extraordinary items	(.36)	.17	.01	.03	.10	.03	.17
Net earnings before pro-forma adjustments	.35	.17	.27	.18	.41	.06	.84
Pro-forma adjustments	.11	.11	.11	.12	.11	.09	.01
Net earnings after pro-forma adjustments	.46	.28	.38	.30	.52	.15	.85
Pro forma NSMC Shares (note A):							
Including all proposed acquisition companies:							
Earnings before extraordinary items	—	.01	.05	.10	.21	.12	.26
Extraordinary items	.17	.05	.01	.01	.06	.04	.10
Net earnings before pro-forma adjustments	.17	.06	.06	.11	.27	.16	.36
Pro-forma adjustments	.05	.03	.03	.03	.02	.02	—
Net earnings after pro-forma adjustments	.22	.09	.09	.14	.29	.18	.36
Including all proposed acquisition companies except Interstate:							
Earnings before extraordinary items	.01	.02	(.02)	.09	.17	.15	.16
Extraordinary items	—	—	—	—	.05	.05	.09
Net earnings	$ .01	$ .02	$(.02)	$ .09	$ .22	$ .20	$ .25
Dividends per share (notes B and C):							
Interstate National Corpoartion and subsidiaries:							
Actual	.156	.169	.097	—	.058	.016	.088

See notes on page 12

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Book value per share as of May 31, 1969 (June 30, 1969 with respect to Interstate National Corporation and subsidiaries):

National Student Marketing Corporation and subsidiaries:	
Actual	$3.13
Pro-forma:,	
Including all proposed acquisitions	4.43
Including all proposed acquisitions except Interstate	2.91
Interstate National Corporation and subsidiaries:	
Actual	7.17
Pro-forma NSMC shares (note A):	
Including all proposed acquisitions	2.95
Including all proposed acquisitions except Interstate	1.94

NOTES:

(A) The equivalent earnings (or book value) shown as "Pro-forma NSMC shares" represents the pro forma combined earnings (or book value) per share of NSMC and proposed acquisitions on a pooling of interests basis adjusted to the number of (or fraction of) NSMC shares being received in exchange for each equivalent common stock share of Interstate National Corporation.

(B) The dividends per share of Interstate National Corporation and subsidiaries include preferred and common stock dividends and have been calculated on the basis of the average number of shares of common stock outstanding (or which would have been outstanding on a pooling of interests basis) adjusted to reflect full conversion of all the outstanding preferred stock of the company. The earnings per share with respect to Interstate National Corporation and subsidiaries have been calculated on the same basis.

(C) None of the companies other than Interstate National Corporation have paid dividends except for $20,000 paid by National Student Marketing Corporation to its sole shareholder in connection with a reorganization prior to the shares of common stock of the company becoming publicly held. Consequently, no equivalent dividend data in terms of pro forma NSMC shares has been shown.

The following table sets forth information with respect to the range of bid prices (adjusted for stock splits and stock dividends) for the NSMC Common Stock for the period since NSMC's initial public offering in April, 1968, and for the Common Stock of Interstate for the periods indicated:

	NSMC		Interstate	
Period	High Bid	Low Bid	High Bid	Low Bid
1967—				
First Quarter	—	—	11¾	10⅝
Second Quarter	—	—	14¼	10⅞
Third Quarter	—	—	13½	10⅝
Fourth Quarter	—	—	14	11
1968—				
First Quarter	—	—	14¼	12⅜
Second Quarter	15¼	6¾	16½	11½
Third Quarter	41½	15¼	18¼	13½
Fourth Quarter	36½	23½	19¼	15¼
1969—				
First Quarter	44	27	11¾	8¾
Second Quarter	51½	39	21	9¼
Third Quarter (to September 15)	49	41	26¾	19½

No public market exists for the stock of the other companies which are proposed to be merged into NSMC.

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CAPITALIZATION

The following tables set forth the capitalization of National Student Marketing Corporation and subsidiaries at August 31, 1969 and the pro forma combined capitalization which will result from the various proposed acquisitions.

NATIONAL STUDENT MARKETING CORPORATION (NSMC) AND SUBSIDIARIES AND ALL PROPOSED ACQUISITIONS

	NSMC and Subsidiaries	Proposed Acquisitions	Pro Forma Adjustments	Pro Forma Combined
SHORT-TERM DEBT:				
Secured notes payable to bank with various interest rates from 7¾% to 9%, due at various dates	$ 280,376	$ 13,208	$ —	$ 293,584
Unsecured notes payable to banks with various interest rates from 6½% to 9%, due at various dates through August 31, 1970	5,843,505	45,113	—	5,888,618
7% unsecured note payable on September 17, 1969	112,500	—	—	112,500
	6,236,381	58,321	—	6,294,702
LONG-TERM DEBT:				
4% note payable, secured by common stock of subsidiary company, payable in equal installments on September 1, 1970 and 1971	3,000,000	—	—	3,000,000
Secured debt, 3⅞% to 7%, due 1969 through 1980	527,075	1,226,830	—	1,753,905
Unsecured 7% note, payable on September 17, 1970	112,500	—	—	112,500
Other	—	—	1,780,000	1,780,000
	3,639,575	1,226,830	1,780,000	6,646,405
STOCKHOLDERS' EQUITY:				
Capital stock:				
National Student Marketing Corporation Common Stock, par value $.025 per share. Authorized 3,000,000 shares; issued 2,896,555 shares (pro forma 4,093,412)	72,414(1)	—	29,921	102,335
Proposed acquisitions	—	1,348,551(2)	(1,348,551)	—
Additional paid-in capital	7,869,865	4,939,229	680,977	13,490,071
Retained earnings	1,598,076	3,694,055	(108,330)	5,183,801
Treasury shares, at cost 7,001 shares	(11,889)	(79,194)	79,194	(11,889)
	$9,528,466	$9,902,641	$ (666,789)	$18,764,318

The current portion of long-term debt reflected above is as follows:

National Student Marketing Corporation and subsidiaries	$ 40,182
Mar-Clay Mills, Inc.	161,418
	$201,600

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NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES AND ALL PROPOSED ACQUISITIONS EXCEPT INTERSTATE NATIONAL CORPORATION

	NSMC and Subsidiaries	Proposed Acquisitions	Pro Forma Adjustments	Pro Forma Combined
SHORT-TERM DEBT				
Secured note payable to bank with various interest rates from 7¾% to 9%, due at various rates	$ 280,376	$ 13,208	$ —	$ 293,584
Unsecured notes payable to banks with various interest rates from 6½% to 9%, due at various dates through August 31, 1970	5,843,505	45,113	—	5,888,618
7% unsecured note, payable on September 17, 1969	112,500	—	—	112,500
	6,236,381	58,321	—	6,294,702
LONG-TERM DEBT				
4% note payable, secured by common stock of subsidiary company, payable in equal installments on September 1, 1970 and 1971	3,000,000	—	—	3,000,000
Secured debt, 3⅛% to 7%, due 1969 through 1980	527,075	1,226,830	—	1,753,905
Unsecured 7% note, payable on September 17, 1970	112,500	—	—	112,500
Other	—	—	1,780,000	1,780,000
	3,639,575	1,226,830	—	6,646,405
STOCKHOLDERS' EQUITY				
Capital stock				
National Student Marketing Corporation:				
Common stock, par value $.025 per share. Authorized 3,000,000 shares; issued 2,896,555 shares (pro forma 3,266,746)	72,414	—	9,320	81,734
Interstate National Corporation:				
Preferred stock, no par value, stated value $20. Authorized 1,000,000 shares; issued 27,000 shares	—	22,100	(22,100)	—
Common stock, $1 par value. Authorized 2,000,000 shares; issued 700,000 shares	—	86,451	(86,451)	—
Additional paid-in capital	7,869,865	133,985	(459,228)	7,544,622
Retained earnings	1,598,076	848,447	(108,330)	2,338,193
Treasury shares at cost	(11,889)	—	—	(11,889)
TOTAL STOCKHOLDERS' EQUITY	$9,528,466	$1,090,983	$ (666,789)	$9,952,660

(1) 320,269 shares of the issued stock are held in escrow and 297,000 shares of unissued stock are committed to escrow agreements upon becoming available when additional shares are authorized. All are subject to the terms of various acquisition agreements whereby certain incremental earnings levels as defined in the acquisition agreements, must be met before these shares are released. If such earnings are not met the shares will be returned to the Company. In addition to the foregoing, the Company has authorized the issuance of up to 236,000 shares under the terms of a qualified stock option plan. Under the terms of this plan the option must be exercised within five years from the date of issuance but may not be exercised prior to two years from such date. The shares of stock which may result to be issued and outstanding as a result of these commitments are not reflected in the above capitalization tables.

(2) All of the outstanding stock of the proposed acquisition companies will be owned by National Student Marketing Corporation or its wholly-owned subsidiaries.

(3) The capitalization tables reflect on a pro forma basis the issuance of NSMC capital stock for all the proposed acquisitions as follows:

Interstate National Corporation	826,666
Frommer Group of Companies	128,801*
Mar-Clay Mills, Inc.	160,000
Mailbag Group of Companies	81,390
	1,196,857

* Includes 930 shares issued to shareholders of Travel Center, Inc., one of the Frommer Group of Companies, the acquisition of which has been consummated.

The pro forma calculations of shares to be outstanding in connection with the proposed acquisitions do not reflect approximately 445,000 shares subject to future "earn-out" and shares which may be issued in the event of declines in the market value of National Student Marketing Corporation stock under the acquisition agreements which are the subject of this proxy statement.

(4) The authorized shares shown in the above capitalization tables as 3,000,000 would be increased to 7,500,000 on a pro forma basis, assuming approval of the increased authorized common stock by the stockholders which is a subject of this proxy statement.

(5) Annual rentals for lease of space amount to $872,148, $1,271,248 and $931,248 for NSMC; NSMC and all proposed acquisitions and NSMC and all proposed acquisitions except Interstate National Corporation, respectively.

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DESCRIPTION OF NATIONAL STUDENT MARKETING CORPORATION

NSMC was incorporated in the District of Columbia on May 20, 1966 under the name National Student Marketing Service Inc. to assume the business and expand on the concept of a predecessor company, National Employment Services Institute, now a wholly-owned subsidiary of NSMC. Its principal executive offices are at 345 Park Avenue, New York, New York 10022. The terms "Company" and "Corporation" as used under this caption "Description of National Student Marketing Corporation" refer to National Student Marketing Corporation and its divisions and subsidiaries, foreign and domestic, unless the context otherwise requires, while the term "NSMC" will refer solely to the parent corporation.

Business

Through its divisions and subsidiaries, the Company provides a diversified range of non-traditional advertising, promotional, and marketing services designed to reach and influence the buying habits of the youth market, defined by the Company as consumers between the ages of 16 and 24, with particular stress on the college and high school student market. Direct communications media are provided on a fixed fee and commission basis to client companies wishing to reach the youth market and are also used to promote sales of the Company's own products and facilities.

NSMC, the parent corporation, maintains offices in seven U. S. cities and is the primary sales and distribution division of the Company. The media services offered by NSMC include direct mail advertising; promotional films on college campuses; advertising fliers handed to students; posters placed at high traffic centers on university campuses; and advertising on calendar desk pads distributed free to students in wirebound notebooks, and in freshman photo directories and university telephone directories published by the Company. In addition, NSMC provides such services as on campus promotions, hand and mail sampling, market research, and the marketing and processing of special student discount offers, such as youth half fare airline cards and record club memberships. To market these services to company clients, NSMC maintains a staff of twenty-five salesmen primarily in major metropolitan areas with emphasis on New York City.

The youth marketing services offered by the Company are in part provided by certain wholly owned subsidiaries acquired during 1968 and 1969. Collegiate Advertising Ltd. ("Collegiate"), a British Columbia corporation acquired in January 1968, was engaged in a number of the above activities prior to its acquisition, with geographical focus on the western United States and Canada. Its operations have been essentially integrated into NSMC. New England Subscription Service Inc. is a Massachusetts corporation primarily engaged in the solicitation and processing of magazine subscriptions among college students in the New England states.

In connection with the direct mail service offered to clients, Shaffer Enterprises, Inc. of Kansas City, Missouri ("Shaffer"), a large educational mail list company, maintains a computerized list of high school students used both in the Company's direct mail program and also sold by Shaffer directly to specialized client users of such lists. National Scholastic List Co. Inc. of New York provides comparable services with respect to college student lists.

Compujob Inc. and National Manpower Register Inc., both New York corporations, acquired in August and September 1968, respectively, permit the Company to offer client employers and prospective student employees the benefits of computerized job placement. This is an extension of the concept initiated in National Employment Services Institute, which is the publisher of the *Recreation Employment Guide*, the *Career Employment Guide* and the *Overseas Employment Guide*, now in their 10th edition, sold directly and through college stores to students.

The products of the Company's divisions and subsidiaries are sold directly and also marketed in conjunction with overall planned promotional programs of NSMC.

Institutional Directories, Inc., a Texas corporation, publishes telephone directories containing paid advertising under contracts with 33 university administrations throughout the United States.

Lewis Bros. Ceramics, Inc., specializes in the design, decoration, glazing, and final fabrication of college oriented ceramics and glassware, such as fraternity beer mugs, decorative tiles and glasses, and other items bearing college, fraternity, organizational or personal insignias. Such decorated ceramic

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items are also offered as promotional or premium pieces to marketing and advertising clients of the Company. Much of the raw ceramic production for Lewis Bros. is done by Pennsbury Pottery Inc., a Pennsylvania producer of ceramics.

Renselaar Corporation of Conshohocken, Pennsylvania, doing business under the name of Poster Prints, produces an extensive line of youth oriented posters, including personality, art, and travel posters. The Company selects appropriate designs, contracts for the printing, packages the finished product in tubes, and distributes it nationally through novelty, drug, department, and college bookstores, as well as through mail order fulfillment. A line of black and white fine art reproductions known as "Studio One", suitable for home decoration, is also produced. Poster Prints also designs, produces, and sells a number of related novelty items catering to the youth market, such as badges and buttons, and is at present under exclusive contract with both major baseball leagues and the two major professional football leagues for the production and distribution of baseball and football posters.

The Colad Co., Inc. ("Colad") is one of the original manufacturers of laminated plastic bookcovers primarily for the high school and college market. These bookcovers often bear advertising, and are manufactured in Colad's Buffalo, New York, plant on equipment much of which is held under patent by Colad. Colad also produces a line of notebooks, covers and small briefcases, all of which are subjected to the same laminating process and are marketed primarily through college stores as well as through Colad's basic marketing facilities.

In April 1969, the Company acquired Impressions by M. Inc. ("Impressions"), and its subsidiary Watsnu Sportswear Inc. ("Watsnu"), both New York corporations specializing in the design and marketing of youth oriented slacks. The Company markets under the brand name "Impressions" a line of high style slacks, as well as a more traditional line of slacks with the accent on youth. Showrooms and offices are maintained in New York City, with warehouse facilities in the South.

The Company entered the field of youth travel through the acquisition in February 1969 of New England Travel Corporation ("NET") which, under exclusive contract to the American Institute for Foreign Study ("AIFS") in 1968 sent 5,200 American high school students for accredited courses of study in prominent European universities, such as those located in Durham, England; Salamanca, Spain; and Grenoble, France. NET secures all transportation, lodging, meals, touring, sightseeing, and other related services to AIFS under a long term non-cancellable service agreement. The number of students in the NET/AIFS program for 1969 is 7,300.

Through the facilities of Guest-Pac Corporation acquired in March 1969 the Company offers a wide range of hand-sampling to its clients. Guest-Pac and its affiliate Campus-Pac assemble boxes containing non-competitive samples of approximately 8 to 10 nationally advertised products and distribute either directly or through college stores on campuses throughout the U.S. Guest-Pac also provides a comparable service to servicemen and to newly moved families.

In September 1968 the Company established International Student Marketing Ltd. ("ISM"), a United Kingdom corporation, to develop and expand its penetration of the youth market in Western Europe. To date the activities of ISM have been limited to a 1969 summer program known as Rural Britannia, whereby qualified British university students are brought to the U.S. to serve as counselors in summer children's camps under the auspices of the American Camping Association. During 1969, 488 such students came to the United States and ISM hopes to expand this program for future years.

At the present time each division and subsidiary contributes to the overall range of products and services offered to clients wishing to reach the youth market or sold directly to such market. The particular activity of any division or subsidiary may at the same time be offered directly to an outside customer and integrated into an overall marketing plan sold by the Company to a major client.

The Company relies equally upon sales of products and sales of services to contribute to profitability, with products contributing a gross profit margin of 5% more than services in 1968. Sales of products in 1968 listed by category and in order of profitability, were as follows: (1) miscellaneous products, (2) posters, and (3) wearing apparel. Their percentage of total product revenues was 30%, 25% and 45%, respectively. Sales of services in 1968, listed by category and in order of profitability, were as follows: (1) fixed fee contracts, (2) foreign study programs, and (3) prepared sales programs. Their percentage of total service revenues was 36%, 51% and 13%, respectively.

Clients

The services of the Company are primarily utilized by major national advertisers as a supplement to their use of traditional advertising media such as newspapers, television and radio. Such clients include

major drug and pharmaceutical companies, automobile manufacturers, publishers, airlines, record companies, and soft drink manufacturers. The normal commitment takes the form of an undertaking to utilize the Company's services in a manner outlined in a proposal made by the Company, which proposal normally provides for the utilization of several of the various services offered by the Company in order to enhance the client's penetration of the youth market. Thus, a typical proposal might include a poster wave, direct mail, and a promotional film program through the Company, a sampling program using the facilities of Guest-Pac Corporation, bookcover advertising through Colad Co., Inc., plus an advertisement in college telephone directories inserted by Institutional Directories, Inc. Thus, the Company is able to offer an integrated total marketing package to clients utilizing the facilities of a number of divisions and subsidiaries. Often such services would include the sponsorship of schools and other public institutions. During the spring of 1969, the Company acted as marketing agent in the securing of sponsors for the first American College Theatre Festival conducted under the auspices of the Friends of the Kennedy Center and the Smithsonian Institution in Washington, D.C.

Distribution

The products and services created and produced by the Company are distributed nationally primarily through its network of approximately 700 college students who act as part-time representatives. These students are compensated by commission on the basis of the return from items passed out, posted, or in other ways promoted through their efforts. The students' network is divided into 20 districts each of which is supervised by a district manager who in turn reports to one of 4 regional managers. Distribution of products and services not requiring immediate contact between the market and the student representative, such as direct mail, is carried out from the Company's local offices, primarily from its Washington office which is the center of mail fulfillment, and data processing of returns, commissions and other data.

Facilities

The following are the principal facilities of the Company, all of which are leased except as otherwise indicated:

Location	Occupant	Principal Operations	Approx. Floor Area in Square Feet
Boston, Mass.	NSMC	Sales Office	842
Chicago, Ill.	NSMC	Sales Office	2,300
Detroit, Mich.	NSMC	Sales Office	710
Los Angeles, Calif.	NSMC	Sales Office	2,300
New York, N. Y.	NSMC	Executive & Principal Sales Office	25,000
Oakland, Calif.	NSMC	Sales Office & Art Production	2,400
Toronto, Ont.	NSMC—Canada	Sales Office	4,180
Vancouver, B. C.	NSMC—Canada	Executive and Sales Office	380
Washington, D. C.	NSMC	Accounting, Mail Fulfillment, & Data Processing	2,600
Buffalo, N. Y.	Colad	Executive Sales and Manufacturing	100,000
Mt. Vernon, N. Y.	Guest-Pac	Executive and Sales Office and Plant	36,000
Lubbock, Texas	Institutional Directories	Office	2,000
Vancouver, B. C.	International Record Corp.	Office and Plant	12,000
London, England	International Student Marketing Ltd.	Executive and Sales Offices	3,500
Yonkers, N. Y.	Lewis Bros. Ceramics Inc.	Office and Plant*	15,400
New York, N. Y.	National Manpower Register	Sales Office	4,555
New York, N. Y.	National Scholastic List Co.	Sales Office	240
Norman, Okla.	National Student Store	Retail Store	6,000
Greenwich, Conn.	New England Travel Corp.	Executive and Admin. Offices	9,000
Philadelphia, Pa.	Renselaar Corp.	Warehouse	43,000
Conshohocken, Pa.	Renselaar Corp.	Office	4,000
Glendale, Calif.	Renselaar Corp.	Warehouse	15,000
New York, N. Y.	Renselaar Corp.	Showrooms	600
Kansas City, Mo.	Shaffer Enterprises, Inc.	Office and Plant	67,000
New York, N. Y.	Watsnu & Impressions By M. Inc.	Executive and Sales Office	3,500
New York, N. Y.	Watsnu & Impressions By M. Inc.	Showroom	700
Athens, Ga.	Watsnu & Impressions By M. Inc.	Warehouse	9,000

* This facility is owned by Lewis Bros. Ceramics Inc.

All the facilities of the Company are in good physical condition, the sales offices being primarily situated in modern office buildings completed within the last two years.

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Employee Relations

In addition to the part time campus representatives referred to under "Distribution" above, the Company employs approximately 800 full time personnel, none of whom is covered by any collective bargaining or other labor contract. Of these employees, 152 are employed by NSMC, the parent corporation.

Management

Since its inception and particularly during 1968 and 1969, NSMC has attracted into its management a considerable number of experienced and well trained management personnel, primarily through the incentives provided by the stock option plans described in Proposal 2 above. The management of NSMC is as follows:

Name	Title	Background
Cortes G. Randell	Chairman of the Board of Directors	*
Cortes W. Randell	President & Chief Executive Officer	*
Roger O. Walther	Executive Vice President & Chief Operating Officer	*
Donald A. Fergusson	Senior Vice President & Chairman, Executive Committee	*
James F. Joy	Senior Vice President & Chairman, Finance Committee	*
Bernard J. Kurek	Treasurer, Vice President—Finance	A graduate of Benjamin Franklin University; formerly Comptroller for Thompson's Dairy, Wash., D. C.
John Glandon Davies	Secretary & General Counsel	*
Richard B. Thomas	Senior Vice President	A graduate of Dartmouth College; formerly Senior Vice President; Director of Marketing for the NSM Marketing Division; 13 years previous experience with Time, Inc.
Dennis Kelly	Vice President	A graduate of Northwestern University; Assistant Supervisor of Promotion—Procter & Gamble; Manager International Advertising—Eastern Airlines; and Account Executive—Doyle, Dane & Bernbach.
Douglas Garnett	Vice President	A graduate of University of British Columbia and The Harvard Business School; joined NSMC from the San Francisco headquarters of Bank of America.
Clifton A. Cobb	Vice President	A graduate of University of Michigan and the Business School of the University of California; joined NSMC from the National Division of the Bank of America.
Alan E. Mackenzie	Vice President	A graduate of Amherst College and The Harvard Business School; formerly with Time, Inc.
Robert A. Fergusson	Group Vice President	*
Paul B. Marley	Group Vice President	A graduate of the University of British Columbia; formerly Brand Manager with Proctor & Gamble; Account Executive for J. Walter Thompson.
Albert C. Hann	Group Vice President	A graduate of Brooklyn College and Wharton School of Business; Account Executive at Ted Bates & Co., Inc.; Product Supervisor at Bristol-Meyers.

* For history see table of directors below.

In January, 1969, the by-laws of the Corporation were amended to increase the maximum number of directors from seven to eleven. John G. Davies, NSMC General Counsel, Joseph Kwiatkowski, President of Impressions by M. Inc., Wilton J. Lutwack, President of Colad Co., Inc., and Roger O. Walther, President of New England Travel Corp., were elected to fill the newly created directorships until the next annual stockholders' meeting. The Corporation has agreed to nominate to its Board of Directors one representative of the stockholders of Five-Dollar-A-Day Tours, Inc. and two representatives of

Interstate National Corporation after the consummation of the mergers of these companies into the Corporation. It is contemplated that the by-laws of the Corporation will be amended to enlarge the Board of Directors by three members, and that the representatives of Five-Dollar-A-Day Tours, Inc. and Interstate National Corporation will be nominated to fill such vacancies until the Annual Meeting of Stockholders in December 1969. The following table sets forth the names and principal occupations of the directors of the Corporation, all of whose terms expire at the next annual stockholders' meeting, and their beneficial holdings of the Corporation's Common Stock as of September 15, 1969:

Name of Director and Principal Occupation	Year First Elected as Director	Shares of Common Stock Beneficially owned as of September 15, 1969
John Glandon Davies* ..... To 1969, partner in the law firm of Deck & Davies, Washington, D. C. 1969 General Counsel and Assistant Secretary, NSMC. Secretary of NSMC since May, 1969.	1969	20(1)
Dr. Frank G. Dickey ..... Since 1965, Executive Director, National Commission on Accrediting, Executive Director, Southern Association of Colleges and Schools, 1963-65. President, University of Kentucky, 1956-63.	1967	500
Donald A. Fergusson* ..... Since 1961, President Collegiate Advertising Ltd. and since 1967, Vice President Collegiate Advertising Inc., now subsidiaries of the Corporation. Executive Vice President of NSMC from July 1968 to July 1969. Since July 1969 Senior Vice President-Corporate Development.	1968	114,388(2)
Robert A. Fergusson ..... Vice President of Collegiate Advertising Ltd., now a subsidiary of the Corporation, since 1961. Vice President-Director of Operations of NSMC from August 1968 to July 1969. Since July 1969, Group Vice President.	1968	114,168
James F. Joy* ..... Since July 1969, Senior Vice President—Corporate Planning. Associated with W. E. Hutton & Co., investment banking firm, since 1962 and a partner from January 1969 through June 1969.	1968	2,500(3)
Joseph Kwiatkowski ..... To 1966 head of ladies division, Henry I. Siegal Corp. Since 1966, President, Impressions by M. Inc.	1969	47,750
Wilton J. Lutwack ..... Founder and President, The Colad Co., Inc., Buffalo, New York.	1969	5,941(4)
Cortes G. Randell* ..... Chairman of the Board of the Corporation and its predecessor since 1964. International business consultant to corporations and government agencies in the United States and foreign countries. Consultant to the International Finance Corporation, affiliate of the World Bank, 1960-65.	1964	22,580
Cortes W. Randell* ..... President of the Corporation and its predecessor since 1964. Marketing administrator, Communications Systems Division, International Telephone and Telegraph Co., 1962-64; marketing specialist, General Electric Co., 1959-61.	1964	459,950(5)

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Name of Director and Principal Occupation	Year First Elected as Director	Shares of Common Stock Beneficially owned as of August 1, 1969
Glen D. Shaffer ..... Since 1966 President of Shaffer Enterprises, Inc., now a subsidiary of the Corporation. Operated predecessor business of such subsidiary from 1963 to 1966.	1968	120,000(6)
Roger O. Walther ..... Founder and President, New England Travel Corp., Greenwich, Conn. Since July 1969, Executive Vice President, Chief Operating Officer, NSMC.	1969	140,000

* Member of the Executive Committee.

(1) Consists of 20 shares owned by the wife of John Glandon Davies.

(2) Includes 63,750 shares of Common Stock owned by Donald A. Fergusson's wife.

(3) Pursuant to agreements with the Corporation and Cortes W. Randell, James F. Joy presently enjoys voting and dividend rights in 27,000 shares of Common Stock which are in escrow. By January 2, 1978, Mr. Joy will have received between 8,500 and 18,500 of these shares. For a more complete description of these agreements, see "Certain Transactions".

(4) Wilton J. Lutwack's wife owns 2,291 shares of Common Stock in which he disclaims any beneficial interest.

(5) Excluding 240,000 shares loaned to the Company pursuant to transactions described above on page 2 hereof.

(6) Includes 48,000 shares of Common Stock owned by Glen D. Shaffer's wife. One thousand of the shares owned by Glen D. Shaffer and 1,000 of the shares owned by his wife are in escrow.

Remuneration

During the fiscal year ended August 31, 1968, all directors and officers of the Corporation were paid an aggregate remuneration of $78,805.

Certain Transactions

NSMC and its Subsidiaries have entered into employment agreements with 10 officers and directors of the Corporation terminating between 1971 and 1978 pursuant to which such officers and directors will receive annual aggregate base remuneration of $254,500 subject in certain cases to contractual increases and subject in the case of Glen D. Shaffer to an additional sales commission of 1% on the gross sales of Shaffer Enterprises, Inc.

On June 30, 1969, James F. Joy entered into a 5-year employment agreement with the Corporation at an annual salary of $40,000 in partial consideration for which Cortes W. Randell deposited in escrow 10,000 shares of the Corporation's Common Stock owned by him to be released to Mr. Joy between 1970 and 1978, the exact number of shares to be released to Mr. Joy being contingent upon the number of years Mr. Joy remains in the service of the Corporation. Mr. Joy will also receive in two installments an aggregate of 8,500 shares as compensation for negotiating four proposed acquisitions by the Corporation, a specific number of such shares being assigned to each such acquisition. Such assigned number will be set aside for Mr. Joy from shares deposited in escrow by the Corporation for each acquisition consummated and by Mr. Randell for each acquisition not consummated.

Pursuant to an employment agreement with the Corporation, Wilton J. Lutwack became indebted to the Colad Co., Inc. in the amount of $57,000. The principal of the loan was used to purchase insurance on the life of Mr. Lutwack and is to be repaid without interest out of the proceeds of the insurance on Mr. Lutwack's death.

During the fiscal year ending August 31, 1969, Roger O. Walther, a director, and President of New England Travel Corporation ("NET"), a subsidiary of the Corporation, received 190,000 shares of the Corporation's Common Stock in exchange for 95 shares of NET Common Stock upon the acquisition of NET by the Corporation. Mr. Walther is a ⅓ partner in Greenwich Partners, which owns an office building at 102 Greenwich Avenue, Greenwich, Connecticut. NET leases this building under a 20-year lease at an annual rental of $54,000.

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NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS

The following consolidated statement of earnings of National Student Marketing Corporation and subsidiaries, insofar as it relates to the three years ended August 31, 1968 has been examined by Peat, Marwick, Mitchell & Co., independent certified public accountants, whose report is based in part on the reports of other auditors, as set forth in such reports included elsewhere in this proxy statement. With respect to the nine month periods ended May 31, 1968 and May 31, 1969, which are unaudited, the management of the Corporation believes that all adjustments (none of which were other than normal recurring accruals) necessary to a fair statement of the results for such interim periods have been included. The consolidated statement of earnings should be read in conjunction with the consolidated financial statements of National Student Marketing Corporation and subsidiaries and related notes thereto appearing elsewhere in this proxy statement.

	Year ended August 31, (note A)					Nine months ended May 31, (note B)	
	(unaudited)		(audited)			(unaudited)	
	1964	1965	1966	1967	1968	1968	1969
Net sales:							
Services	$ 732	$1,231,908	$1,661,956	$3,448,371	$ 5,799,644	$1,429,620	$ 3,832,630
Sales of products	—	62,199	996,218	2,204,489	5,742,251	3,111,460	7,480,939
	732	1,294,107	2,658,174	5,652,860	11,541,895	4,541,080	11,313,569
Cost of sales:							
Services	—	1,019,055	1,257,530	2,440,449	3,942,680	757,674	1,794,400
Sales of products	—	32,294	525,203	833,310	3,419,151	1,749,343	4,647,663
	—	1,051,349	1,782,733	3,273,759	7,361,831	2,507,017	6,442,063
Gross profit	732	242,758	875,441	2,379,101	4,180,064	2,034,063	4,871,506
Selling, general and administrative expenses	8,736	226,743	752,967	1,673,178	2,902,853	1,241,446	3,850,503
Operating profit (loss)	(8004)	16,015	122,474	705,923	1,277,211	792,617	1,021,003
Interest expense	—	803	5,590	18,825	35,156	10,697	225,915
Earnings before income taxes and extraordinary credit	(8004)	15,212	116,884	687,098	1,242,055	781,920	795,088
Provision for taxes on income:							
Federal and state—currently payable	—	6,441	29,935	261,883	404,964	162,671	92,818
Federal and state—deferred	—	—	12,000	41,000	241,769	121,500	288,388
Canadian—currently payable	—	—	—	5,580	21,620	22,706	—
	—	6,441	41,935	308,463	668,353	306,877	381,206
Earnings before extraordinary credit	(8,004)	8,771	74,949	378,635	573,702	475,043*	413,882*
Extraordinary credit—Federal income tax reduction:							
Carryforward of prior years operating loss	—	—	600	7,000	10,700	—	—
Reduction of deferred tax provision as a result of net operating loss carryforwards	—	—	—	—	188,750	100,000	288,388
Total extraordinary credits	—	—	600	7,000	199,450	100,000	288,388
Net earnings (loss)	$(8,004)	$ 8,771	$ 75,549	$ 385,635	$ 773,152	$ 575,043*	$ 702,270*
Average shares of common stock or common stock equivalents of the company outstanding during each period (note A)	600,000	1,542,726	1,970,000	2,378,000	2,586,000	2,473,700	3,043,454
Earnings per share (note A):							
Net earnings before extraordinary credit	(.01)	.01	.04	.16	.22	.19*	.14*
Extraordinary credit	—	—	—	—	.08	.04	.10
Net earnings	$ (.01)	.01	.04	.16	.30	.23*	.24*
Book value per share							$2.89

* Excludes income and costs of New England Travel Corporation (see note B-3).

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NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENT OF EARNINGS

(A) Figures include the results of operations of certain businesses acquired in poolings of interests transactions (note 3 to consolidated financial statements of National Student Marketing Corporation and subsidiaries) except National Scholastic List Co., Inc. which is included only for the year ended August 31, 1968 and the nine month periods ended May 31, 1968 and 1969. Financial statements are not readily available for prior years. The present operations of National Scholastic List Co., Inc. are not material to the consolidated financial statements of the company.

Certain pooled companies are included in the consolidated statement of earnings on the basis of fiscal years that differ from National Student Marketing Corporation. Amounts duplicated as a result of being included in more than one fiscal period have been eliminated in the statement of retained earnings for the respective periods. The amounts duplicated in the respective periods are immaterial except for the nine months ended May 31, 1969 in which case the gross revenues and net earnings included therein, which also formed part of the figures for the year ended August 31, 1968, were $4,378,000 and $206,033 respectively. The following Companies have fiscal years that differ from National Student Marketing Corporation:

Company	Fiscal year ended
Collegiate Advertising, Ltd.	May 31*
New England Subscription Service	December 31*
Lewis Brothers, Inc.	December 31*
Institutional Directories, Inc.	December 31**
New England Travel Corporation and subsidiaries	October 31
Renselaar Corporation	October 31
Impressions By M. Inc.	December 31

* Commencing September 1, 1967 the accounting year was changed to August 31.

** Commencing September 1, 1966 the accounting year was changed to August 31.

In addition to the companies listed above acquired and accounted for under the pooling of interests concept, three Companies were acquired and accounted for as purchases; their operations are included in the consolidated statement of earnings for the nine months ended May 31, 1969 commencing the date of acquisition as follows:

	Date acquired	Gross Revenue	Net Earnings (Loss)
National Manpower Register, Inc.	September 16, 1968	$ 440,317	$ (2,000)
The Colad Company, Inc.	February 1, 1969	986,177	79,161
Guest Pac Corporation	March 1, 1969	722,854	274,829
		$2,149,348	$351,990

The average number of shares outstanding during each year has been adjusted: (1) for the stock split described in note 8 to the consolidated financial statements of National Student Marketing Corporation and subsidiaries (2) to include the equivalent of the number of shares of common stock outstanding of companies acquired in transactions accounted for as poolings of interests (3) to include, where applicable, the proportionate number of shares of common stock earned as of May 31, 1969 in accordance with the various earn out agreements and (4) to give effect to exercise of all outstanding stock options. There would be no material reduction in earnings per share on a fully diluted basis.

(B) Due to the seasonal nature of certain aspects of its business, the figures for the nine month periods included in the consolidated statement of earnings are not necessarily indicative of the results for the fiscal year. The Company has adopted the following accounting policies.

(1) Prepared sales programs:

This business activity is seasonal and coincides with the school year. Expenditures are incurred for printing, layout, and mailing preparatory to the commencement of various sales programs, most of which commence in the fall of the year and carry over to the spring.

The company follows the practice of deferring these costs and amortizing them over the periods in which applicable income is derived. The amortization periods commence with the various sales campaigns and costs are written off over the lives of the programs or a maximum of twelve months, whichever period is less.

(2) Fixed-fee type contracts:

During the year 1968 the company's volume of business on fixed-fee type arrangements increased substantially. This business involves employees of the company developing over-all marketing and/or advertising programs for clients and/or prospective clients. The major portion of the work done by the company involves determination of the client's requirements and proposal by the company of an overall program. Costs related to development of the programs are charged to expenses as incurred. The eventual implementation of the agreed-upon program is carried out principally by representatives and third parties, generally on a fixed commission or charge per piece basis. Owing to the nature of this activity, management believes that income

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NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENT OF EARNINGS—(Concluded)

is best matched against costs directly connected with the production of this income by recording the estimated gross profit based on the percentage of time incurred to the total estimated time to be incurred by the employees in development of the over-all program for the client. Accordingly, commencing in 1968 all such programs have been accounted for on this basis upon obtaining a client commitment.

(3) Foreign study programs:

The operations of New England Travel Corporation (a wholly-owned subsidiary described elsewhere in the proxy statement) involve arrangements by the company of study programs abroad during the summer months for high school students. Results of operations are accounted for during the summer months as the study programs are completed and students return to the United States. Consequently, all income and costs are deferred during the first nine months of the year. As a result, the unaudited nine month figures in the consolidated statement of earnings exclude any operations of New England Travel Corporation.

(C) Figures for 1968 have been restated in certain instances to make their presentation consistent with current accounting practices. There was no material effect as a result of such restatement.

(D) Net sales and earnings as originally reported to stockholders in the annual reports for the years 1967 and 1968 and original prospectus for the year 1966 and the amounts as shown in the statement of earnings in this proxy statement are reconciled as follows:

	1966	1967	1968
Net sales:			
Originally reported	$ 573,259	$2,386,500	$ 4,989,446
Pooled companies reflected retroactively	2,084,915	3,266,360	6,552,449
Per statement of earnings	$2,658,174	$5,652,860	$11,541,895
Net earnings (loss):			
Originally reported	(4,510)	168,616	388,031
Pooled companies reflected retroactively	80,059	217,019	385,121
Per statement of earnings	$ 75,549	$ 385,635	$ 773,152

(E) National Student Marketing Corporation has not paid any dividends except for $20,000 paid to the sole stockholder in connection with a reorganization prior to the shares of common stock of the company becoming publicly held.

Comments on Consolidated Statement of Earnings of National Student Marketing Corporation and Subsidiaries

The Company's subsidiary, Impressions by M Inc. did not begin to sell products until 1967. Therefore, since 1968 was the first full year of operations, there was a substantial increase in sales for the year ended August 31, 1968. As a result, because of the relatively low gross profit margin on these sales, which is characteristic of the industry, the cost of product sales increased from 39% to 60% as compared to an increase in product sales to 50% of total Company sales.

As explained in note B-3 of notes to consolidated statement of earnings, all revenues and expenses of the Company's subsidiary, New England Travel Corporation, are deferred during the first nine months of the year and accounted for during the last quarter. As a result, gross revenues increased substantially during the last quarter of 1968 as compared to the first nine months of that year. However, because the profit margin of these sales is lower than the average of the other companies included in the consolidated statement of earnings, net earnings do not reflect a proportionate increase.

During the second and third quarters of 1969, twenty-three middle management personnel were hired both to stabilize present operations and in expectation of future growth. The cost of expanding management personnel, along with interest cost of $200,000 incurred by borrowing $5,000,000, of which $3,000,000 was used for the acquisition of Guest Pac and $2,000,000 to finance internal growth, had an adverse effects on net earnings for the nine months ended May 31, 1969.

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3(a). INTERSTATE NATIONAL CORPORATION

Reason for the Merger

The proposed merger of Interstate National Corporation ("INC") with and into NSMC affords the Company an opportunity to participate in the insurance brokerage and special risk underwriting areas of the insurance business in general, and in particular in the youth oriented insurance business through INC which, through contract with university administrations, handles student insurance at over 460 universities, as well as programs at over 6,000 summer camps. In the opinion of the Board of Directors of NSMC, the access of NSMC to the youth market affords special opportunities in the area of insurance. Stockholders of INC will gain the position of stockholders in a larger and more diversified corporation.

Recommendation of Management

The terms of the proposed merger were agreed upon in arms' length negotiations between the officers of both companies. Among the factors considered in fixing the number of shares of NSMC Common Stock to be issued were the relative earning power of both enterprises based on past and anticipated operations, the relative balance sheet positions, the general financial position of both companies and their long-range prospects. The Boards of Directors of NSMC and INC have unanimously approved the plan of merger and believe that such plan is fair and equitable, and recommend to the stockholders of NSMC and INC that they vote in favor of it.

Description of the Agreement

The terms of the proposed merger are contained in an Agreement and Plan of Merger dated as of the 13th day of August, 1969 between NSMC and INC ("INC Plan"). The following description of such plan is only a summary of certain of its provisions and does not purport to be complete and is subject in all respects to the plan itself, which is attached hereto as Schedule C and to which reference is hereby made.

The merger will become effective upon the filing of Articles of Merger in accordance with the laws of the District of Columbia and the filing of the plan in accordance with the laws of the State of Nevada as soon as practicable after the approval of the stockholders of both corporations. It is presently contemplated that the effective date of the merger will be October 31, 1969.

Upon the effectiveness of the merger each issued and outstanding share of INC Common Stock will be automatically converted into ⅔ of one share of NSMC Common Stock and each share of INC Preferred Stock will be converted into 13⅓ shares of NSMC Common Stock. Shareholders of INC who dissent and comply with Nevada law will receive the fair value of their shares. Such conversion rate will be adjusted upward if the average price of the NSMC Common Stock is less than $45 per share for the 20 business days prior to the merger, provided that the total number of shares into which all shares of Interstate stock are converted shall not exceed 942,000. Assuming a value for the NSMC stock as so determined, each share of INC Common Stock would be converted on the basis of $30 in value into an equivalent number of shares of NSMC Common Stock and each share of INC Preferred Stock would be converted on the basis of $600 in value into an equivalent number of shares of NSMC Common Stock.

No fractional shares of NSMC Common Stock shall be delivered. In lieu thereof each holder of a fractional interest will be afforded the opportunity to either purchase the additional fractional interest required to make up a whole share or to sell such fractional interest and obtain the net proceeds thereof following the surrender of his INC certificate(s). Until so surrendered, each outstanding certificate which, prior to the effectiveness of the merger, represented INC stock, shall be deemed for all purposes (except as to the payment of dividends) to evidence the ownership of the number of full shares of NSMC Common Stock into which such shares of INC stock are converted.

Instructions with respect to the exchange of INC stock certificates for NSMC stock certificates will accompany the notice to INC stockholders of the effectiveness of the transaction. INC stockholders

will not receive dividends on shares of NSMC Common Stock, if any, or payment of cash from the sale of fractional shares thereof, until they have actually surrendered their INC stock certificates for exchange.

Each INC stockholder may participate in the first underwritten registered distribution of NSMC shares within one year after the merger (in the event there is such a distribution) with respect to not more than 25% of his shares received in the merger. If a registration statement shall not have been filed prior to March 31, 1970 the holders of the NSMC shares received by the INC Principal Stockholders wishing to dispose of at least 60,000 of such shares may request the registration of such shares and NSMC shall, within six months, file such a registration statement. In the event any shares are sold at a "public offering price" (as defined in Exhibit B to the INC Plan) less than the lesser of the value of such shares as determined in paragraph 3(c) of the INC Plan or $45 per share, NSMC will issue additional shares to such stockholders up to a maximum number of shares equal to the difference between 1,000,000 and the number of shares into which all Interstate stock was converted upon the effectiveness of the merger. The expenses relating to any registration statement referred to in Exhibits B and C to the INC Plan, including registration fees, printing costs and fees and disbursements of counsel and independent accountants will be borne by NSMC. Exhibits B and C to the INC Plan set forth in detail the terms and conditions of such registered distribution.

The obligations of both NSMC and INC under the INC Plan are subject to the fulfillment of certain conditions prior to the consummation of the plan, including the truth of their respective representations and warranties when the plan is consummated, delivery of certain opinions of counsel and receipt of letters from independent public accountants stating that they have no reason to believe that (a) the unaudited interim financial statements of NSMC or INC contained in this proxy statement were not prepared in accordance with accounting principles and practices consistent with those followed in the preparation of the next preceding audited statements or (b) there has been any subsequent material adverse change in the financial position or results of operations of NSMC or INC.

The obligations of NSMC under the plan are subject to the additional condition that each "affiliate" within the meaning of Rule 133 under the Securities Act of 1933, as amended, shall have entered into an agreement with NSMC providing that such stockholder is acquiring the NSMC Common Stock to be received by him in connection with the merger otherwise than with a view to the distribution thereof and providing that none of such shares of NSMC Common Stock received by such stockholder shall be sold or otherwise transferred except in the manner permitted in the INC Plan or exhibits thereto.

The obligations of INC under the INC Plan are subject to the additional condition that it shall have received an opinion of its counsel to the effect that the transactions contemplated by the INC Plan will not result in the realization of taxable income to the INC stockholders except with respect to the sale of fractional interests.

NSMC has agreed that after the effectiveness of the merger it will nominate Cameron Brown as a director of NSMC and that subsequently as and when a vacancy shall occur on the Board of Directors of NSMC it will nominate an additional representative of INC to be selected by NSMC.

Tax Consequences of the Merger

INC believes that the consummation of the proposed merger will not result in any recognizable gain or loss for federal income tax purposes to INC or to the holders of any of its outstanding shares, except for stockholders who exercise their statutory appraisal rights and except with respect to fractional interests sold; that the basis of the NSMC Common Stock in the hands of INC stockholders will be the same as the basis of the INC shares surrendered in exchange therefor; and that the holding period of the NSMC Common Stock will include the period during which such stockholders held their INC shares.

Expenses of Merger

Each party will bear its expenses of the merger. In the event the merger does not become effective, NSMC and INC will pay their respective fees and expenses.

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Business of Interstate National Corporation

General

Interstate National Corporation is a Nevada corporation formed in 1968 to act as a holding company. On January 1, 1969, it acquired Interstate Fire & Casualty Company ("IFC"), an Illinois stock insurance company and its wholly-owned subsidiaries, Chicago Insurance Company ("CIC"), Interstate Life Assurance Company and Interstate Reinsurance Corporation, collectively referred to as the Interstate Insurance Group ("IIG").

IFC was incorporated in 1950 to carry on a general insurance business and it is authorized to write all classes of insurance other than life insurance. Classes of insurance written to date (generally at independent rates) include, among others, fire and allied lines, accident, automobile, and general liability other than automobile. Although organized in 1950, IFC did not write substantial amounts of business until 1952. In 1956, CIC was incorporated in Illinois and now writes insurance at bureau rates. It is authorized to write all classes of insurance other than life insurance. Interstate Life Assurance Company was organized in Illinois to provide access to the life insurance field. It commenced business in 1965 and its writings to date have been immaterial. The results of its operations are not reflected in the following tables, unless otherwise noted. Interstate Reinsurance Corporation, also incorporated in Illinois, began in 1962 to provide facultative, large excess and treaty reinsurance lines. Beginning with IFC in January, 1952, all of the IIG companies have been managed by Geo. F. Brown & Sons, Inc. ("GFB"). On May 31, 1969, GFB was acquired by INC and became a wholly-owned subsidiary. GFB continues to provide management services to the insurance group. In addition, GFB engages in a general insurance agency and brokerage business through its own organization and several subsidiary corporations. The home office of INC is in Bloomington, Illinois and the executive office is in Chicago, Illinois.

The insurance business is highly competitive, there being many companies and agencies with long histories of experience underwriting and producing the same general classes of insurance as are written by IIG and GFB. In addition to stock companies, there are mutuals, reciprocals, and Lloyd's type operations which offer insurance similar to that underwritten by IIG. There are several agencies engaged in specialty lines of insurance which are comparable to GFB in size.

IIG, as is true of all insurance companies admitted to do business in the State of Illinois, is subject to strict regulation and supervision by the Director of Insurance of the State of Illinois. Policy forms and premium rates, as well as most other aspects of the business, are regulated by the Director of Insurance.

Interstate Insurance Group

The Interstate Insurance Group attempts to provide various types of insurance facilities to meet the requirements of agents, brokers and other insurance companies.

IFC is presently licensed only in Illinois, Puerto Rico, and the Virgin Islands, although the company transacts a nation-wide business on a "Surplus Lines" or "non-admitted carrier" basis in other states.

Brokers, in most states, cannot place a risk with an insurance company not admitted in that state unless it is a class of business or a risk which companies admitted in that state are not willing to write. This is Surplus Lines or non-admitted carrier business. All business written by IFC outside Illinois is of this type. The company is not bound to write this business at the premium rates filed with the Illinois Insurance Department for its Illinois business but may fix a premium commensurate with a particular risk involved.

IFC belongs to the National Board of Fire Underwriters and the Illinois Inspection and Rating Bureau. The Bureau determines and files rate schedules with the Illinois Insurance Department for Fire and Allied insurance on behalf of the member organizations, although IFC has filed certain deviated rates below the Bureau rates for preferred classes of business.

It has been the policy of IFC not to write all the business the agent or broker offers but to be selective in its underwriting, attempting generally to find particular areas where special rate filings or deviations from Bureau filings can be made.

CIC is authorized to write all classes of insurance other than life insurance and it offers a market at bureau rates where competition is not an important factor to the agent or broker. There are instances, especially in the field of fire and allied lines insurance, where a number of companies are on a risk at bureau rates and a deviation is, therefore, not desired by the producer. CIC is admitted or has applications to do business in all states except New York. In Illinois, it follows the rates of the Illinois Inspection and Rating Bureau. Filings in states other than Illinois have generally been at independent rates and on forms similar to those used by IFC in Illinois.

Interstate Reinsurance Corporation was organized to specialize in reinsurance business, and accepts all classes of reinsurance except life.

Interstate Life Assurance Company was organized to provide IIG with the capacity to write life insurance. While this facility is operational, the Company has not emphasized life business and writings to date have not been material.

Reinsurance

Reinsurance is the purchase of insurance by a carrier to help it discharge its possible losses and to limit its liability arising out of any one occurrence. IIG has reinsurance treaties (contracts) with over twenty reinsurers principal among which are Allstate Insurance Co., Protection Mutual Insurance Co., Reinsurance Corporation of New York and Underwriters at Lloyd's. The Illinios Insurance Code allows IIG to take credit in computing its reserves for that portion of its business reinsured with these or other reinsurers admitted to do business in the State of Illinois. IIG remains primarily liable for the full amount under all policies but the portion of any loss that has been reinsured is recoverable from the reinsurer. With respect to risks which are reinsured, IIG includes in net income only premiums with respect to the portion of such risks which are not reinsured.

IIG has three general types of reinsurance treaties:

Pro-Rata or Quota Share Treaty—Reinsurance of a certain percentage of the basic risk on policies up to a stated amount.

Excess of Loss Treaty—Reinsurance of an agreed portion of a particular risk over and above a certain amount.

Catastrophe Treaty—Reinsurance of an agreed portion of the potential liability resulting from a particular occurrence (regardless of the number of particular risks involved) above a certain amount.

The reinsurance purchased by IFC for itself and CIC is generally arranged on one of two bases. Pro-rata treaties are placed with a ceding commission allowance, which allowance is intended to reimburse the companies for necessary commissions to brokers and agents and to include their other costs. Excess of loss and catastrophe treaties are arranged on a flat rate basis with the premium being dependent upon the volume of business written in the particular class to which the individual contract is applicable.

As the capital and surplus of the companies has increased, it has been the policy to increase the amount of risk retained. In so doing, the reliance on pro-rata treaties has been gradually reduced. The excess of loss and catastrophe treaties will continue to be a permanent part of the operation although the net retention on individual risks is expected to increase. Below is a description of principal reinsurance treaties of IFC and CIC:

Casualty Reinsurance: The maximum potential liability retained by IFC or CIC on a single risk is $50,000 regardless of the size of the loss. An excess of loss contract protecting both IFC

and CIC provides 100% of $950,000 over a net retention of $50,000 per accident on Bodily Injury and Property Damage claims. Part of this reinsurance is accepted by the Interstate Reinsurance Corporation.

Fire and Inland Marine: The maximum retention on any one risk by either IFC or CIC is $50,000 and all liability over that amount is reinsured.

The companies also maintain a joint Catastrophe reinsurance treaty which limits loss in the event more than one property is damaged by the same fire, windstorm, or other occurrence. Under this contract IFC and CIC are reinsured up to a maximum further sum of $765,000 (90 percent of that portion of such loss in excess of the first $150,000), the first $150,000 and 10 percent of the next $850,000 being the companies' retention.

Where it is deemed necessary, certain specific treaties are arranged to protect the companies under their retention of $50,000 Casualty and $50,000 Property. In any event, if either company accepts a risk with a limit in excess of its treaty facilities, special reinsurance is purchased to protect it.

The Interstate Reinsurance Corporation has a separate Quota Share Treaty to protect its overall writings.

Classes of Insurance Written

The following table summarizes, by classes, the amount of insurance premiums written, assumed and ceded in 1968:

	Direct Premiums Written	Reinsurance Premiums Assumed	Reinsurance Ceded	Net Premiums Written
Fire and allied lines	$ 2,143,731	$ 618,976	$ 1,813,849	$ 948,858
Accident	1,232,999	12,904	54,528	1,191,375
General liability	5,469,968	760,704	1,520,984	4,709,688
Automobile liability, including physical damage	6,724,054	89,819	409,731	6,404,142
Other	3,795,257	4,549,743	7,614,899	730,101
	$19,366,009	$6,032,146	$11,413,991	$13,984,164

Development of Business

The general development of IIG's business since 1964 is shown in the following tabulation:

Calendar Year	Admitted Assets	Net Premiums Written
1969 (Nine months ended June 30)	$34,363,817	$11,081,797
1968 (Nine months ended June 30)	32,900,441	9,684,786
1968	33,358,188	13,984,164
1967	33,343,774	14,599,635
1966	30,200,568	13,687,454
1965	25,333,625	11,674,321
1964	23,125,678	9,929,651

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Loss and Expense Ratios

The loss and expense ratios for IIG for each of the periods indicated are as follows:

Year	Net Premiums Written	Net Premiums Earned	Ratio of Losses and Loss Adjustment Expenses Incurred to Premiums Earned	Ratio of Underwriting Expenses Incurred to Premiums Written	Combined Losses and Expense Ratio
1969 (Nine months ended June 30)	$11,081,791	$10,729,954	66.6%	33.8%	100.4%
1968 (Nine months ended June 30)	$ 9,684,786	$10,067,280	69.0	36.5	105.5
1968	13,984,164	14,688,046	67.0	37.4	104.4
1967	14,599,635	14,334,710	70.9	34.7	105.6
1966	13,687,454	12,868,039	70.3	34.8	105.1
1965	11,674,321	11,202,004	72.2	34.3	106.5
1964	9,929,651	9,226,144	72.1	36.4	108.5

Ratio of Losses Incurred to Premiums Earned

The following tabulation sets forth for IIG, for the periods indicated, by major classifications of business the net premiums earned, the net losses incurred and the ratio of net losses incurred to premiums earned (the "loss ratio").

	Year ended December 31,				
	1964	1965	1966	1967	1968
Fire and Allied Lines:					
Premiums Earned	$ 505,827	$ 758,917	$ 1,102,105	$ 1,076,773	$ 1,033,550
Losses Incurred	298,841	645,992	892,957	886,061	759,730
Loss Ratio	59.1%	85.1%	81.0%	82.3%	73.5%
Accident only:					
Premiums Earned	364,759	488,161	702,670	916,342	1,194,774
Losses Incurred	216,388	301,125	370,101	434,309	635,016
Loss Ratio	59.3%	61.7%	52.7%	47.4%	53.1%
General Liability:					
Premiums Earned	3,162,216	3,688,789	3,672,274	4,133,027	4,824,161
Losses Incurred	1,582,027	1,824,668	1,719,870	2,337,865	1,999,640
Loss Ratio	50.0%	49.5%	46.8%	56.6%	41.5%
Automobile Liability, including physical damage:					
Premiums Earned	4,379,233	5,256,749	6,260,976	7,183,048	6,889,851
Losses Incurred	2,636,882	2,926,628	3,217,557	3,589,685	3,556,561
Loss Ratio	50.2%	55.7%	51.4%	50.0%	51.6%
All Other:					
Premiums Earned	814,109	1,009,388	1,130,014	1,025,520	745,710
Losses Incurred	568,952	866,125	1,252,124	921,774	840,592
Loss Ratio	69.9%	85.8%	110.8%	89.9%	112.7%
Total:					
Premiums Earned	9,226,144	11,202,004	12,868,039	14,334,710	14,688,046
Losses Incurred	5,303,090	6,564,538	7,452,609	8,169,694	7,791,539
Loss Ratio	57.5%	58.6%	57.9%	57.0%	53.0%
Loss Adjustment Expenses Incurred	$1,349,557	$ 1,523,830	$ 1,593,485	$ 1,998,729	$ 2,044,391
Loss Ratio including loss adjustment expenses	72.1%	72.2%	70.3%	70.9%	67.0%

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Investments and Investment Results

The investments of IIG are determined by the Investment Committees for each of the companies within the Group. The Committees are selected by their respective Boards of Directors from the members of the Boards. The investment policy of each company in the group is coordinated with the financial requirements of such company with the view of protecting the reserve funds and shareholders' equity.

The following schedule shows a summary of securities owned by IIG at June 30, 1969. All securities are valued in accordance with requirements of the National Association of Insurance Commissioners as follows: eligible bonds at amortized values and all other securities at market values.

Type of Security	Actual Cost	Book Value	Market Value(b)	Admitted Asset Value(c)
Bonds and Notes:				
United States Government	$ 4,635,704.94	$ 4,661,506.88	$ 3,695,795.90	$ 4,661,506.88
General Obligations:				
State and political subdivisions	4,412,227.35	4,405,005.57	4,405,005.57	4,405,005.57
Canadian	125,000.00	125,000.00	125,000.00	125,000.00
Revenue	7,896,075.07	7,873,565.15	7,568,244.99	7,873,565.15
Railroad	435,000.00	435,000.00	411,075.00	435,000.00
Public Utilities	1,376,947.25	1,382,064.36	1,225,850.00	1,382,064.36
Industrial and Miscellaneous	3,723,326.10	3,722,799.36	3,128,783.50	3,722,799.36
Total Bonds and Notes	22,604,280.71	22,604,941.32	20,559,754.96	22,604,941.32
Stocks:				
Preferred Stocks:				
Railroads	125,100.00	125,100.00	91,400.00	91,400.00
Public Utilities	846,563.37	846,563.37	575,252.50	575,252.50
Industrial and Miscellaneous	854,055.36	854,055.36	713,573.50	713,573.50
Total Preferred Stocks	1,825,718.73	1,825,718.73	1,380,226.00	1,380,226.00
Common Stocks:				
Public Utilities	496,674.29	496,674.29	460,062.50	460,062.50
Savings & Loan Bank Shares	5,000.00	5,000.00	5,000.00	5,000.00
Industrial and Miscellaneous	1,844,462.34	1,844,462.34	1,877,626.76	1,877,626.76
Total Common Stocks	2,346,136.63	2,346,136.63	2,342,689.26	2,342,689.26
Total Stocks	4.171,855.36	4,171,855.36	3,722,915.26	3,722,915.26
Total Investments in Securities other than Affiliated Companies	$26,776,136.07	$26,776,796.68	$24,282,670.22	$26,327,856.58

(a) Does not include investment in Interstate Life Assurance Company.

(b) Market value has been determined on the basis prescribed by the Valuation Committee of the National Association of Insurance Commissioners. When such market values were not available for bonds, amortized values were used.

(c) The amortized or investment value of Bonds and Notes is the same as the Admitted Asset Value.

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The following tabulation shows the cash and invested assets and the income earned thereon, together with the realized gain or loss on investments and the unrealized gain or loss in investment values, of IIG for the periods indicated. Income earned on invested assets is stated after deduction of all investment expenses other than income taxes, and excludes gains and losses on investments.

Period	Average Cash and Investments(a)		Investments & Cash Total	Investment Income Earned(b)	Per Cent Earned on		Realized Gain on Investments (c)	Unrealized Gain (Loss) from Revaluation of Investments
	Cash	Investments			Investments and Cash	Investments Only		
1964	$ 629,942	$17,467,747	$18,097,689	$ 531,349	2.9	3.0	$475,987	$ (36,776)
1965	651,518	18,995,252	19,646,770	633,074	3.2	3.3	240,171	(178,212)
1966	864,842	22,265,384	23,130,226	857,549	3.7	3.9	11,280	(162,037)
1967	1,240,030	25,351,846	26,591,876	960,833	3.6	3.8	38,429	(23,400)
1968	1,555,120	26,592,365	28,147,485	1,066,125	3.8	4.0	118,660	280,980
Nine months ended June 30, 1969	954,329	26,332,043	27,286,372	874,336	4.3(d)	4.4(d)	133,664	(370,036)

(a) Average of amounts at beginning and end of period with securities valued on the basis prescribed by the National Association of Insurance Commissioners. Real Estate is included at its admitted asset value.

(b) Investment income includes interest on bonds, dividends from stock other than subsidiaries, and real estate income.

(c) Before applicable income taxes (if any).

(d) Annualized.

Geographical Distribution of Business

In 1968 the geographical distribution of the direct premium writings (gross premiums less return premiums and cancellation, excluding reinsurance assumed and before deducting reinsurance ceded) for the Interstate Insurance Group was as follows:

Location	Amount	Percent of Total
Illinois	$ 8,782,478	45.3
Florida	1,744,088	9.0
California	1,415,816	7.3
Minnesota	845,559	4.4
New Jersey	366,041	1.9
Indiana	230,602	1.2
Puerto Rico	230,157	1.2
Massachusetts	222,161	1.1
Washington	204,765	1.1
Alaska	188,836	1.0
Louisiana	186,294	1.0
Other states, District of Columbia and Virgin Islands	1,149,566	5.9
Surplus Lines	3,799,646	19.6
Total	$19,366,009	100.0

Geo. F. Brown & Sons, Inc.

Geo. F. Brown & Sons, Inc., acquired May 31, 1969, is an insurance agency founded in 1912. From 1912 to 1946 it engaged principally in an insurance brokerage business, dealing directly with the public. Commencing in 1946 the proportion of its direct brokerage business began to be reduced and since 1953 it has done most of its business through agents and brokers. Its agency business has grown from $350,000 in premiums in 1946 to in excess of $26 million in 1968. It secures business from over 6,000 agents, brokers, and insurance companies located throughout the United States. In addition, since

1952 GFB has, in effect, operated the Interstate Insurance Group. While its service contract was terminated upon GFB's acquisition by INC, GFB continues as before to be generally responsible for most aspects of IIG's business other than the investment of its assets. The insurance companies retain ultimate control over the amount and type of risks to be insured, premium rates, commissions to be paid to brokers and agents, reinsurance and the settlement of claims. GFB is reimbursed for its actual costs in servicing the insurance companies.

Since 1946 a very important part of GFB's operations has been the representation of Underwriters at Lloyd's London for whom it has been performing many underwriting functions similar to those handled for IIG. GFB has been underwriting manager for Continental Casualty Company in respect of its Illinois Liquor Liability Insurance since 1959. While Lloyd's and the companies represented by GFB write the same general classes of insurance as IIG, each insurer generally accepts different types of risks. Business is placed with IIG or other markets depending upon the wishes of the client or his broker, the rates charged, the underwriting practice of the insurer, the commissions offered and, in some cases, another domestic or foreign insurer is desired. Since 1962 the agency business has been handled through a subsidiary, Brown and Hawley, Inc. In 1968 premiums in excess of $15 million were written through Brown and Hawley, Inc. with Underwriters at Lloyd's, the Continental Casualty Company, and other domestic and foreign insurers.

Another subsidiary, Higham, Nielson, Whitridge & Reid, Inc., is the nation's largest producer of tailor-made accident and health programs for colleges, universities, schools, and camps. At the present time, it has approximately 460 exclusive contracts with major U. S. colleges and universities covering student accident, health, and liability insurance, and administers student medical reimbursement policies at these institutions. Its premiums written in 1968 were $9,050,196.

For the past fifteen years Geo. F. Brown & Sons, Inc., both directly and through Central Treaty Brokers, a wholly-owned subsidiary, has arranged a substantial amount of reinsurance, catastrophe and excess of loss business. This has been done by means of treaties, facultative placings and direct excesses.

Geo. F. Brown & Sons, Inc. maintains its principal office at 175 West Jackson Boulevard, Chicago, Illinois, and branch offices in New York City, Boston, Atlanta, St. Petersburg, Dallas, Minneapolis, Los Angeles and San Francisco.

Description of Interstate National Corporation Shares

Interstate National Corporation is authorized to issue 2,000,000 shares of Common Stock, $1 par value, of which 700,000 shares were outstanding as of August 25, 1969; and 1,000,000 shares of Preferred Stock without par value, 27,000 of which have been designated and issued as Series A Convertible Preferred shares. All of the Series A Convertible Preferred shares are currently outstanding. Interstate officers, directors and Principal Stockholders as a group own an aggregate of 238,778 shares of Common Stock and 27,000 shares of Series A Convertible Preferred Stock.

Holders of Common Stock are entitled to one vote for each share. Holders share ratably in assets available for distribution upon liquidation, but only after any preferential distributions to holders of Preferred Stock have been provided for or paid. Holders of Common Stock do not have preemptive rights or cumulative voting rights. All outstanding shares of Common Stock are fully paid and nonassessable. Holders of the Common Stock are entitled to receive such dividends as may be declared from time to time by the Board of Directors.

The Series A Convertible Preferred Stock is identical in all respects to the Common Stock except in the following particulars. Any dividend on the Series A Convertible Preferred Stock must be 20 times any dividend on the Common Stock. No dividend may be declared on the Common Stock without being declared on the Preferred Stock. Stock dividends may be declared, except that such dividends on the Series A Preferred Stock may only be declared in such shares while Common Stock dividends may be declared only upon shares of Common Stock: No stock dividends may be declared unless declared on both the Common and the Series A Preferred Stock. A similar provision applies to stock splits. Each outstanding share of Series A Preferred Stock is convertible and will be automatically converted into 20 fully paid shares of Common Stock on January 1, 1973.

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INTERSTATE NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

The following statement reflects the results of operations of Interstate National Corporation on a pooling of interests basis with its wholly-owned subsidiaries Interstate Fire & Casualty Company and subsidiaries and Geo. F. Brown & Sons, Inc. and subsidiaries (see note 1 of notes to the respective consolidated financial statements). Peat, Marwick, Mitchell & Co., independent certified public accountants, have examined the consolidated statement of income, so far as it relates to operations before pro forma adjustments, for the three years ended December 31, 1968 as stated in their report which is based in part upon the report of other independent certified public accountants and which should be read in conjunction with the consolidated financial statements of Interstate National Corporation and subsidiaries and the related notes appearing elsewhere herein. With respect to the nine-month periods ended June 30, 1968 and 1969 which are unaudited, the management of the Corporation believes all adjustments (which include only normal recurring items) necessary to a fair statement of the results for such unaudited periods have been included. The operating results for the nine months ended June 30, 1969 are not necessarily indicative of the results for a full year.

	Year ended December 31,					Nine months ended June 30,	
	1964	1965	1966	1967	1968	1968	1969
	(unaudited)	(unaudited)				(unaudited)	(unaudited)
Operating income:							
Insurance premiums	$ 9,226,144	$11,202,004	$12,868,039	$14,334,710	$14,688,046	$10,067,280	$10,729,954
Commissions	1,923,068	2,099,101	2,354,542	2,465,691	2,705,488	2,028,992	2,341,950
Management fees	69,126	70,435	77,616	174,764	291,424	132,046	135,017
Net investment income	558,621	665,011	887,564	970,340	1,057,305	737,749	943,874
Other	73,713	88,971	(70,980)	145,108	183,696	290,415	159,257
Total income	11,850,672	14,125,522	16,116,781	18,090,613	18,925,959	13,256,484	14,310,053
Operating expenses:							
Losses and loss adjustment expenses	6,206,338	7,641,200	8,531,476	9,550,363	9,275,699	6,492,790	6,731,454
Commissions and brokerage	1,181,461	1,468,185	1,561,455	1,988,157	2,798,775	1,737,204	1,763,002
Other operating expenses	4,471,953	5,010,433	5,628,869	6,380,357	6,447,551	5,012,865	4,662,442
Total expenses	11,859,752	14,119,818	15,721,800	17,918,877	18,522,025	13,242,861	13,156,899
Income (loss) before Federal income taxes	(9,080)	5,704	394,981	171,736	403,934	13,623	1,153,154
Federal income taxes	7,000	6,000	69,000	(7,000)	26,000	(18,800)	322,710
Net income (loss) before extraordinary credit	(16,080)	(296)	325,981	178,736	377,934	32,423	830,444
Extraordinary credit—Federal income tax credit resulting from net operating loss carryforward							87,735
Net realized gain on investments, net of Federal income tax of $24,500 in 1969	482,593	233,195	13,156	42,697	127,487	40,683	117,922
Net income and realized gain on investments before pro forma adjustment	466,513	232,899	339,137	221,433	505,421	73,106	1,036,101
Pro forma adjustment of executive profit sharing, net of Federal income tax	147,445	141,201	140,982	150,650	131,680	116,385	13,168
Pro forma earnings	$ 613,958	$ 374,100	$ 480,119	$ 372,083	$ 637,101	$ 189,491	$ 1,049,269
Average number of shares outstanding (Note)	1,345,320	1,343,820	1,236,168	1,219,334	1,230,580	1,230,580	1,231,352
Pro forma earnings per share (Note)	$.456	$.278	$.388	$.305	$.518	$.154	$.852
Book value							$11.82

NOTE:

The pro forma earnings per share have been calculated on the basis of the average number of shares of common stock outstanding (or which would have been outstanding on a pooling of interests basis) adjusted to reflect full conversion of the outstanding shares of preferred stock of the Company.

The decrease in net income, before extraordinary credit, of Interstate National Corporation from 1966 to 1967 is attributable to a number of features rather than to any specific item. The increase in earnings for the nine months ended June 30, 1969, compared to the nine months ended June 30, 1968, is due primarily to Interstate Insurance Group's substantial increase in earned premiums and an increase in their equity in the unearned premiums reserve.

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INTERSTATE FIRE & CASUALTY COMPANY AND SUBSIDIARIES

(Interstate Insurance Group—Subsidiaries of Interstate National Corporation)

STATEMENT OF CONSOLIDATED SUMMARY OF EARNINGS

The following consolidated statement of earnings for the Interstate Insurance Group have been compiled from the annual statements of the companies as filed with the Insurance Department of their domiciliary state. This summary has been examined by Price Waterhouse & Co. for the four years ended December 31, 1967 and by Peat, Marwick, Mitchell & Co. for the year ended December 31, 1968, whose reports thereon are included elsewhere and should be read in conjunction with the financial statements of Interstate Fire & Casualty Company together with the notes thereto, appearing elsewhere herein. The summaries for the nine months ended June 30, 1968 and 1969 have not been audited, but in the opinion of the management all adjustments necessary, consisting of only normal recurring accruals, have been made for a fair statement of net consolidated income and realized gain on investments for these periods on a statutory basis. The operating results for the nine months ended June 30, 1969 are not necessarily indicative of results for a full year.

	Year ended December 31,					Nine months ended June 30,	
	1964	1965	1966	1967	1968	1968 (unaudited)	1969 (unaudited)
Underwriting income:							
Net premiums written	$ 9,929,651	$11,674,321	$13,687,454	$14,599,635	$13,984,164	$ 9,684,786	$11,081,797
Increase (decrease) in unearned premium reserve	703,507	472,317	819,415	264,925	(703,882)	(382,494)	351,843
Net premiums earned	9,226,144	11,202,004	12,868,039	14,334,710	14,688,046	10,067,280	10,729,954
Losses and loss expenses incurred	6,652,647	8,088,368	9,046,094	10,168,423	9,835,930	6,946,833	7,146,513
Underwriting expenses incurred	3,616,853	3,999,514	4,761,752	5,060,275	5,223,507	3,539,025	3,743,052
Total	10,269,500	12,087,882	13,807,846	15,228,698	15,059,437	10,485,858	10,889,565
Net underwriting loss	(1,043,356)	(885,878)	(939,807)	(893,988)	(371,391)	(418,578)	(159,611)
Investment income:							
Income from investments	579,197	671,676	897,235	1,016,315	1,127,354	784,053	941,767
Investment expenses	47,848	38,602	39,686	55,482	61,229	52,876	67,431
Net investment income	531,349	633,074	857,549	960,833	1,066,125	731,177	874,336
Income (loss) before income of Interstate Life Assurance Company	(512,007)	(252,804)	(82,258)	66,845	694,734	312,599	714,725
Income from Interstate Life Assurance Company (note 3)	34,484	25,360	36,771	31,147	32,641	21,106	24,485
Net income (loss) before Federal income taxes	(477,523)	(227,444)	(45,487)	97,992	727,375	333,705	739,210
Federal income taxes (note 8)	—	(584)	—	—	—	—	—
Net income (loss)	(477,523)	(226,860)	(45,487)	97,992	727,375	333,705	739,210
Realized gain (loss) on investments (note 3):							
Fire and Casualty Companies	475,987	240,171	11,280	38,429	118,660	36,251	133,664
Life Company	3,822	680	37	(577)	(1,903)	(1,903)	(12)
Net income (loss) and realized gain or loss on investments	$ 2,286	$ 13,991	$ (34,170)	$ 135,844	$ 844,132	$ 368,053	$ 872,862

Numerical note references above refer to notes to consolidated financial statements of Interstate Fire and Casualty Company and Subsidiaries.

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INTERSTATE FIRE AND CASUALTY COMPANY AND SUBSIDIARIES

(Interstate Insurance Group—Subsidiaries of Interstate National Corporation)

CONSOLIDATED STATEMENT OF ADJUSTED INCOME

In compliance with the insurance laws and regulations under which the companies operate, insurance premiums when written are credited to the unearned premium reserve account and are transferred to underwriting income on an accrual basis over the terms of the policies. On the other hand, underwriting expenses incurred in issuing the policies, such as commissions, state taxes on premiums, and miscellaneous office expenses are charged to underwriting income as incurred. Furthermore, the applicable insurance laws and regulations do not permit any amount to be carried as an admitted asset which would represent any such prepaid acquisition expenses.

This required accounting treatment has the effect of charging to current income all the expenses in connection with the issuance of a policy at the time it is issued, but the premium income is spread over the period for which the policy is in effect. As a result, in a period when premiums written exceed premiums earned, statutory underwriting income is penalized to the extent of the prepaid acquisition expenses on the excess of premiums written over premiums earned. In a period when the reverse is true, statutory underwriting income is benefited.

Since all expenses in the acquisition of the business represented in the unearned premium reserve have been charged to current income and are not carried as an asset, there is a value or equity in unearned premiums not included in earnings in the financial statements herein. A portion of the unearned premium reserve (see note below) has been reflected as the equity in the unearned premium reserve for the periods in this summary.

In the following tabulation for the Interstate Insurance Group the changes in unearned premiums are taken into account on the basis set forth in the preceding paragraph for the respective periods. This summary has been examined for the years ended December 31, 1964 through 1967 by Price Waterhouse & Co., independent certified public accountants, and for the year ended December 31, 1968 by Peat, Marwick, Mitchell & Co., independent certified public accountants, and should be read in conjunction with the consolidated financial statements of Interstate Fire and Casualty Company and subsidiaries together with the notes thereto, appearing elsewhere herein.

	Year ended December 31,					Nine months ended June 30,	
	1964	1965	1966	1967	1968	1968 (unaudited)	1969 (unaudited)
Net income (loss)	$(477,523)	$(226,860)	$(45,487)	$ 97,992	$727,375	$333,705	$ 739,210
Increase (Decrease) in equity in unearned premium reserve (note)	246,228	165,311	286,795	92,724	(373,382)	(274,622)	114,348
Net adjusted income (loss) before provision for Federal income taxes	(231,295)	(61,549)	241,308	190,716	353,993	59,083	853,558
Provision for Federal income taxes (refund)	(99,713)	(16,856)	—	—	—	—	155,235
Net adjusted income (loss)	(131,582)	(44,693)	241,308	190,716	353,993	59,083	698,323
Extraordinary item:							
Federal income tax credit resulting from loss carryover	—	—	—	—	—	—	87,735
Net adjusted income (loss) including extraordinary items	(131,582)	(44,693)	241,308	190,716	353,993	59,083	786,058
Net realized gain on investments, net of Federal income tax of $24,500 in 1969	479,809	240,851	11,317	37,852	116,757	34,348	109,152
Net adjusted income including extraordinary items and net realized gain on investments	$ 348,227	$ 196,158	$252,625	$228,568	$470,750	$ 93,431	$ 895,210

Note: The equity in the unearned premium reserve at June 30, 1968 and 1969 and December 31, 1968 was computed on the basis of 32.5%. All other periods were computed at 35%. The percent of equity in the unearned premium reserve was determined by an analysis, by major line of business, of the companies' loss and loss expense experience. Included in the computation is a provision for estimated costs of servicing the business until expiration. In addition, consideration was given to the acquisition costs normally incurred in the writing of insurance and collection of premiums.

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GEO. F. BROWN & SONS, INC. AND SUBSIDIARIES
(Subsidiaries of Interstate National Corporation)

CONSOLIDATED STATEMENT OF INCOME

The following consolidated statement of income reflects the income of Geo. F. Brown & Sons, Inc. and its subsidiaries for the five years ended December 31, 1968 and for the nine-month periods ended June 30, 1968 and 1969. Peat, Marwick, Mitchell & Co., independent certified public accountants, have examined the consolidated statement of income, so far as it relates to operations before pro-forma adjustments, for the three years ended December 31, 1968, as stated in their report which should be read in conjunction with the financial statements of Geo. F. Brown & Sons, Inc. and subsidiaries and notes thereto appearing elsewhere herein. With respect to the nine months ended June 30, 1968 and 1969 which are unaudited, the management of the Corporation believes that all adjustments necessary, consisting of only normal recurring accruals, to present fairly the earnings for the periods have been made. The operating results for the nine months ended June 30, 1969 are not necessarily indicative of results for a full year.

	Year ended December 31,					Nine months ended June 30,	
	1964	1965	1966	1967	1968	1968	1969
	(unaudited)	(unaudited)				(unaudited)	(unaudited)
Income:							
Net commissions	$1,949,726	$2,110,020	$2,365,252	$2,506,096	$2,713,670	$2,065,821	$2,385,933
Management and other fees:							
Interstate Insurance Group (note 2)	2,613,166	2,811,837	3,451,856	3,681,435	3,404,438	2,549,700	2,324,943
Other insurance companies	69,125	70,434	55,732	143,451	246,229	239,468	112,706
Settlement with foreign reinsurers (deduction) (note 4)	—	—	(187,500)	(41,066)	—	48,752	
Other income	65,855	80,425	101,509	77,572	153,409	74,873	152,291
Total income	4,697,874	5,072,717	5,786,851	6,367,489	6,517,748	4,978,616	4,975,874
Operating expenses:							
Salaries and other employee benefits except bonuses and profit sharing	2,488,975	2,846,584	3,094,220	3,534,466	3,714,585	2,805,397	2,767,787
Bonuses and profit sharing (note 8)	413,606	391,399	403,429	418,933	423,810	347,194	139,055
Payments to employee retirement trust (note 7)	177,500	200,000	254,166	278,389	279,879	222,917	138,853
Employment agreement expense	49,260	48,802	64,832	188,493	188,222	141,234	141,025
Other operating expenses (note 9)	1,342,325	1,524,188	1,814,081	1,961,342	1,849,873	1,500,998	1,461,808
Total operating expenses	4,471,666	5,010,974	5,630,729	6,381,624	6,456,370	5,017,740	4,648,530
Income (loss) before provision for Federal income taxes	226,207	61,743	156,121	(14,135)	61,377	(39,124)	327,344
Provision for Federal income taxes (note 5)	107,000	24,000	69,000	(7,000)	26,000	(18,800)	167,475
Net income (loss) before pro forma adjustment	119,207	37,743	87,121	(7,135)	35,377	(20,324)	159,869
Pro forma adjustment:							
Executive profit sharing, net of Federal income taxes (note B)	147,445	141,201	140,982	150,650	131,680	116,385	13,168
Net income after pro forma adjustment	$ 266,652	$ 178,944	$ 228,103	$ 143,514	$ 167,057	$ 96,061	$ 173,037

NOTES:

(A) Numerical note references refer to the notes to consolidated financial statements of Geo. F. Brown & Sons, Inc. and subsidiaries.

(B) The pro forma adjustment reflects the elimination (net of tax) of the cost of bonuses paid to certain officers of Geo. F. Brown & Sons, Inc. under an agreement discontinued on October 31, 1968. These individuals have signed employment agreements which provide for remuneration equivalent to the approximate amounts of previous salaries excluding bonuses.

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3(b). **FROMMER COMPANIES**

General

NSMC has entered into agreements providing for the mergers of Five-Dollar-A-Day Tours ("Tours") and Frommer-Pasmantier Publishing Corporation ("FPP") with and into NSMC. In addition NSMC has agreed to acquire all of the outstanding stock of Arthur Frommer, Inc. for $500,000 cash and certain appointments, licenses and agreements owned by Travel Center, a partnership, for a cash consideration of $40,000 and 930 shares of NSMC Common Stock. It is expected that all of the above transactions will be closed concurrently.

Reasons for the Transactions

The above proposed transactions will permit NSMC to expand and diversify its activity in the travel field, especially when combined with NSMC's access to the youth market.

Recommendation of Management

The terms of the mergers of Tours and FPP into NSMC were agreed upon in arms' length negotiations between the officers and directors of NSMC, Tours and FPP. Among the factors considered in fixing the number of shares of NSMC to be issued were the market price of the stock of NSMC, the relative earning power of NSMC, Tours and FPP based on past and anticipated operations, the relative balance sheet positions of NSMC, Tours and FPP and their general financial position, including their long-range prospects.

The Boards of Directors of NSMC, Tours and FPP have unanimously approved the mergers of Tours and FPP into NSMC. They believe that the proposed transactions are desirable, that the agreements are fair and equitable, and recommend to the stockholders of NSMC, Tours and FPP, respectively, that they vote in favor of them.

Description of the Tours Agreement

The terms of the proposed merger of Tours into NSMC are contained in an Agreement and Plan of Merger dated the 11th day of June, 1969 by and between NSMC and Tours and confirmed and agreed to by all of the stockholders of Tours ("Tours Plan"). The following description of the Tours Plan is a summary of certain of its provisions. The summary does not purport to be a complete description and is subject in all respects to the plan itself, which is attached hereto as Schedule D and to which reference is hereby made.

The merger will become effective upon filing of Articles of Merger in the District of Columbia and the filing of a Certificate of Merger in the State of New York as soon as practicable after the adoption thereof by the stockholders of NSMC and Tours. NSMC will be the surviving corporation. It is presently contemplated that the effective date of the transaction will be prior to October 31, 1969. Either party may terminate the Plan if the transaction has not been consummated by such date. The Plan may also be terminated and abandoned by mutual consent of the Boards of Directors of NSMC and Tours at any time prior to the effective date of the merger.

Upon the effectiveness of the merger all of the issued and outstanding shares of Tours Common Stock will be exchanged for an aggregate of 242,675 shares of NSMC Common Stock. Immediately upon receipt of such shares of NSMC Common Stock the stockholders of Tours will deposit in escrow (i) 73,500 of such shares to indemnify NSMC against any "Earnings Deficiency" or "Loss" as defined in the Escrow Agreement appended to the Tours Plan and (ii) 49,000 of such shares to be released to the Tours stockholders in the event of a Decline in Market Value of NSMC Common Stock as defined in said Escrow Agreement. The purpose of such escrow arrangement is (i) to insure that the final number of shares of NSMC Common Stock received by the stockholders of Tours is based upon the actual future earnings of the new NSMC subsidiary to which the business of Tours will be transferred immediately after the effectiveness of the merger and (ii) to protect Tours stockholders against a decline in the market value of NSMC stock upon certain subsequent sales. The escrowed stock will also be used to indemnify NSMC against any loss, liability or reasonable and actual expense incurred by NSMC as a result of any misrepresentation or breach of warranty of the stockholders of Tours contained

in the Tours plan. No fractional shares or scrip will be issued by NSMC and fractional interests of each Tours stockholder will be increased or decreased to the nearest whole share upon the release of any such shares from escrow to such stockholders.

The obligations of NSMC, Tours and the Tours stockholders under the plan are subject to the fulfillment of certain conditions prior to the consummation of the plan including the truth of their respective representations and warranties when the plan is consummated and delivery of certain opinions of counsel.

The obligations of NSMC are subject to the additional conditions that (i) the Tours stockholders shall have executed the Escrow Agreement, (ii) the stockholders of NSMC shall have approved an amendment to the NSMC Articles of Incorporation increasing the number of authorized shares of NSMC Common Stock and shall have approved the Tours Plan and (iii) the number of shares of NSMC Common Stock owned by NSMC stockholders exercising their rights as dissenting stockholders under District of Columbia law shall not have exceeded two percent of the outstanding shares of NSMC Common Stock.

Pursuant to the Tours Plan each Tours stockholder has agreed not to sell his shares of NSMC Common Stock received upon the merger without a favorable opinion of NSMC counsel to the effect that the proposed transfer or disposition does not require registration of such shares of NSMC Common Stock under the Securities Act of 1933, as amended. The Tours stockholders have certain registration rights under the plan, the effect of which is to provide the Tours stockholders with an opportunity to sell all of the NSMC Common Stock received by them under the plan in amounts not exceeding 25 percent of such stock received in the first year after the effective date of the merger, 50 percent of such stock by the end of the second year after the effective date, and all of such shares thereafter. The Tours stockholders have the right under certain circumstances to compel such registration. As referred to above, a portion of the stock deposited in escrow is available to protect the Tours stockholders against a decline in the market value of the NSMC Common Stock below $43 per share upon the subsequent sale of NSMC stock by the Tours stockholders. Notwithstanding any of the provisions of the plan relating to registration of shares of NSMC Common Stock received by Tours stockholders, each such stockholder has agreed that he will not dispose of any shares of NSMC stock if in the opinion of NSMC's independent public accountants such disposition will result in the accounting treatment of the merger being other than a "pooling of interests".

Pursuant to the Tours Plan NSMC has agreed to incorporate on or before the effective date of the merger a New York subsidiary ("New Tours") and to transfer to such subsidiary on or before November 1, 1969 all of the assets of Tours acquired by NSMC pursuant to the merger. Subject to certain conditions, Arthur Frommer, a stockholder of Tours, will have the right to determine the New Tours board of directors, the appointment of New Tours officers and the operations in the ordinary course of business of New Tours. Subject to the same conditions, NSMC has agreed to nominate a representative of the Tours stockholders to serve on the NSMC Board of Directors. NSMC has agreed not to engage in competing services with those of New Tours or the latter's subsidiaries.

Description of the FPP Agreement

The terms of the proposed merger of Frommer-Pasmantier Publishing Corporation with and into NSMC are contained in an Agreement and Plan of Merger dated the 11th day of June, 1969 between NSMC and FPP and confirmed and agreed to by all of the stockholders of FPP ("FPP Plan"). The following description of the FPP Plan is a summary of certain of its provisions. The summary does not purport to be a complete description and is subject in all respects to the plan itself which is attached hereto as Schedule E and to which reference is hereby made.

Procedurally, the plan is similar to the Tours Plan described in the preceding section. Upon the effectiveness of the merger all the issued and outstanding shares of FPP Common Stock will be exchanged for an aggregate of 6,976 shares of NSMC Common Stock. Immediately after receipt of such shares of NSMC Common Stock the FPP stockholders will deposit in escrow 698 shares of such stock to indemnify NSMC against certain losses defined in the Escrow Agreement attached to the FPP Plan.

The conditions contained in the FPP Plan are similar to those described above for the Tours Plan. Registration rights, somewhat more restricted than those contained in the Tours Plan, are provided,

except that the FPP stockholders will obtain no additional shares in the event of a decline in the market value of NSMC stock upon its sale by such stockholders.

Accounting Treatment

The Tours merger and the FPP merger are considered to be poolings of interests for accounting purposes. Therefore, under generally accepted accounting principles, NSMC will carry forward the retained earnings and the net assets of Tours and FPP at their book values immediately prior to the effective date of the merger.

Description of Five-Dollar-A-Day Tours, Inc.

General

Five-Dollar-A-Day Tours, Inc., a New York corporation, was incorporated in November 1961 and commenced operations in the Fall of 1962. Tours' primary business is the creation and operation of inexpensive packaged tours to Europe. In connection therewith, Tours obtains hotel accommodations, arranges for necessary auto and train transportation and books sightseeing tours. These services are combined with air transportation to form a packaged tour program which is normally promoted and advertised by a specific scheduled international airline. The tour ordinarily is divided into two categories: Foreign Independent Tours ("FIT") designed for the individual passenger who does not wish to travel in a preset group, but who seeks prearranged reservations for an itinerary of his own choosing, and Group Inclusive Tours ("GIT") prepared for the passenger who travels in a preset itinerary with a group of at least 15 persons.

The following table sets forth, with respect to the eight month period ending June 30, 1969, a list of the ten largest tours (in dollar volume) and the approximate percentage of Tours sales which each represented:

Name of Airline	Name of Tour	Type of Tour	Eight months ended June 30, 1969 Percentage of Sales
KLM	Europe on $5 a Day	FIT	28.1%
	Europe on $10 a Day	FIT	
BOAC	London Show Tours	GIT	12.5
BOAC	Bonanza Holidays	GIT	9.7
KLM	Thrifticar and Thriftitrain	GIT	9.4
BOAC	Combination Holidays of Britain and Europe	GIT	9.2
Air-India	Two Weeks in the British Isles, A Tale of Two Cities	GIT	3.9
KLM	The Air Tour of the Performing Arts	GIT	3.6
Iberia	Auto-Iberia	GIT	3.2
SAS	Dollar-Wise Holidays	GIT	3.1
KLM	Four Capital Cities, Five Capital Cities	GIT	2.5
		TOTAL	85.2%

Tours' profits are derived from the difference between the cost price for the various land services comprising a tour and the price received from the various airlines or retail agencies for these services. The services that Tours provides in its tour packages generally consist of hotel accommodations, sightseeing tours and either car rentals or railroad tickets. Tours ordinarily obtains its hotel accommodations as the need arises in particular tours. Occasionally, however, Tours will lease a block of rooms or an entire hotel for a specified period of time. Recently, Tours has acquired its own hotel facilities in Copenhagen, Denmark and Amsterdam, Holland which are also used to provide accommodations for its tours (see "Hotel Operations").

Sightseeing accommodations are obtained either on a per person basis or by chartering an entire bus for a specific tour. Recently, Tours organized a sightseeing company in London, England. This Company, which presently owns 3 buses, provides services primarily for Tours. Car rentals and railroad tickets are obtained directly from the suppliers of these services. Tours believes that by purchasing the above services in bulk quantities it is able to effect substantial savings over the price that would be paid by individual tourists purchasing these services on a retail basis.

In addition to the income derived from tour programs, income is derived from airline ticket commissions, service charges for tour cancellations and changes, interest income arising from the use of funds received several months prior to the time payments are required to be made to various suppliers and miscellaneous items incidental to its tour programs.

The following table sets forth the percentage of revenues received by Tours for the last three fiscal years and for the seven months ended May 31, 1968 and 1969 for its various services:

	Fiscal Year Ended October 31			Seven Months Ended May 31	
	1966	1967	1968	1968	1969
Gross Profit from Tour Program	97.3%	88.6%	87.2%	90.8%	88.5%
Airline Commissions	—	.1	6.4	5.9	8.4
Service Charges	—	3.6	3.0	2.3	2.4
Interest Income	1.9	1.8	1.8	.6	.4
Miscellaneous	.8	5.9	1.6	.4	.3
	100%	100%	100%	100%	100%

Administration

Tours' operations are administered primarily in its main office in New York City and in branch offices located in Amsterdam, Paris, Munich, Madrid and Toronto. Tours also has representatives in other major cities throughout Europe. Tours' New York City facility is serviced by an IBM 360 data processing installation which invoices clients, prepares vouchers for their clients' use in Europe, requests reservations from various hotels in Europe, sends status reports to the various retail agents and airline offices, and provides statistical information for the accounting department. In addition, Tours has direct telex communications with its various offices in Europe.

Sales

The executive personnel of Tours personally solicit the international airlines and work out various tour programs with them. Approximately 75% of the revenues from the tours is derived from their sale by retail travel agents. These travel agents are solicited by direct mail and personal solicitation by the various executives of Tours. The sale of tours directly by the international airlines accounts for an additional 23% of Tours' sales. The balance of the tours are sold to the general public through Tours' affiliated retail travel agency, Travel Center.

Governmental Regulations

The International Air Transport Association and the Civil Aeronautics Board set forth the rules and regulations under which various tours may be operated. All tour programs of Tours are subject to these rules and regulations and either of these two organizations may promulgate rules or regulations which may adversely affect Tours future profitability.

Hotel Operations

On April 1, 1969 Tours, through a 50% owned subsidiary, opened a new 180 bed hotel in Amsterdam, Holland which was built to its specifications. The hotel, which is owned jointly with KLM Royal Dutch Airlines, is called the "Hotel Arthur Frommer". Room rentals are $14 per night for a double room including breakfast, service charges and taxes. Tours' subsidiary leases the hotel from a Dutch construction company at annual rentals beginning at $69,000 and increasing to $95,000 at the end of the lease. The lease expires December 31, 1979 but may be extended by Tours' subsidiary for an additional 10 year period. Pursuant to a shareholders agreement with KLM, Tours has exclusive control over the hotel's management.

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On June 1, 1969 Tours, through a wholly owned subsidiary opened a 100 bed hotel in Copenhagen, Denmark. The rooms in this hotel, called "Hotel Arthur Frommer", rent for $20 a night including breakfast, service charges and taxes. The hotel is leased until 1979 at an annual rental of $145,000 which includes all services. Tours has an option to extend the lease for an additional six year period.

Neither hotel has been operating for a sufficient period to determine its profitability. Tours is presently negotiating for the construction or operation of other hotels in various European cities and the Caribbean. No definite arrangements have as yet been completed.

Employees

Tours employs approximately 45 persons in its New York offices. Of this number 10 are executive sales and supervisory personnel, 25 perform clerical services and the balance are engaged primarily in the administration of tour programs. It also employs approximately 20 persons in its offices throughout Europe. It has no collective bargaining agreements and it believes that relations with its employees have always been satisfactory. Tours provides a hospitalization and profit sharing plan for its key employees.

Competition

Competition in the international travel service field is extremely intense and there are many companies involved in providing all expense paid travel tour services which are substantially larger and have greater financial resources than those of Tours.

Property

Tours' main executive offices are maintained on approximately 16,500 square feet of space located on two floors at 70 Fifth Avenue, New York, New York. These premises are leased until February 1978 at an annual rental of $59,136. In addition, Tours must reimburse the landlord for its pro rata share of increased real estate taxes and operational expenses. Tours also leases space until October 31, 1971 at 30 East 42nd Street and 18 East 41st Street at annual rentals of $19,512 and $10,368, respectively. Both premises are sublet by Tours for the balance of their term at the exact rental figure for which Tours is obligated.

Tours also leases office space at the following European locations:

City	Expiration Date	Annual Rental
Amsterdam	June 30, 1972	$476
Madrid	December 31, 1969	$3,000
Munich	November 30, 1969	$1,050
Toronto	November 30, 1971	$1,710
Paris	January 1, 1984	$ 650

Description of Frommer-Pasmantier Publishing Corporation

Frommer-Pasmantier Publishing Corporation was incorporated in the State of New York in January 1963. FPP's primary business is writing, editing and producing travel guides and discount packets on contract for major air carriers and other travel-related firms. FPP has produced five guide books to American cities (New York, Washington, Chicago, Los Angeles and San Francisco) in a series of TWA Budget-Guides for Trans World Airlines. Nine additional TWA Budget-Guides to European and American cities are projected. Revenues from TWA Budget-Guides for the six months period ended June 30, 1969 represented approximately 79% of FPP sales for the period.

FPP has also produced a series of seven guide books for American Airlines and is presently undertaking production of the first test title in what may be a series of packets of discount coupons to businesses in various American cities for Greyhound Bus Lines. In addition, FPP is publishing a new series of "Dollar-Wise Guides" to areas outside the United States, two of which (A Dollar-Wise Guide to Italy, and A Dollar-Wise Guide to England) have already been published and are currently being distributed to book stores by Simon & Schuster, Inc. which has trade distribution rights for FPP.

FPP employs 14 persons including 8 free lance writers, 3 executive personnel, and 3 clerical personnel. FPP occupies office space leased from Tours in New York City.

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THE FROMMER GROUP

COMBINED STATEMENT

The following statement of earnings sets forth the results of operations of The Frommer Group of Companies. The statement so far as it relates to Five Dollar-a-Day Tours, Inc. has been examined by Haskins & Sells, independent certified public accountants, for the three years ended October 31, 1968 and should be read in conjunction with their reports, the combined financial statements of the Frommer Group of Companies and notes thereto included elsewhere in this proxy statement.

	1964 (unaudited)			1965 (unaudited)		
	Five Dollar-a-Day Tours, Inc.	Other Frommer Companies	Combined total	Five Dollar-a-Day Tours, Inc.	Other Frommer Companies	Combined total
Revenue:						
Service	$430,888	260,431	691,319	1,154,236	443,101	1,597,337
Cost of services	335,352	119,293	454,645	941,391	258,676	1,200,067
Gross profit	95,536	141,138	236,674	212,845	184,425	397,270
Selling, general and administrative expenses	76,158	97,956	174,114	209,440	150,013	359,453
Income from operations	19,378	43,182	62,560	3,405	34,412	37,817
Other income	814	—	814	4,052	141	4,193
	20,192	43,182	63,374	7,457	34,553	42,010
Other deductions	—	—	—	—	553	553
Earnings before income taxes	20,192	43,182	63,374	7,457	34,000	41,457
Provision for Federal taxes on earnings (note 4)	5,047	14,257	19,304	1,864	4,819	6,683
Net earnings	$ 15,145	28,925	44,070	5,593	29,181	34,774

NOTES:

(A) See accompanying notes to combined financial statements.

(B) A considerable increase in the 1968 earnings and profits of Five Dollar-a-Day Tours, Inc. which is a high volume, low profit margin operation, was insufficient to offset a decline in the 1968 profits of the Frommer Publishing Companies due primarily to the loss of one significant contract which was subsequently renewed. Thus, while the 1968 sales of the combined Frommer Companies showed a 35% increase over 1967, the 1968 profits showed a 17% decline from 1967.

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OF COMPANIES

OF EARNINGS

With respect to the nine months ended May 31, 1968 and 1969 which are unaudited, management believes that all adjustments, none of which were other than normal recurring accruals, necessary to a fair statement of results of operations for such periods have been included.

1966			1967			1968		
(audited)	(unaudited)		(audited)	(unaudited)		(audited)	(unaudited)	
Five Dollar-a-Day Tours, Inc.	Other Frommer Companies	Combined total	Five Dollar-a-Day Tours, Inc.	Other Frommer Companies	Combined total	Five Dollar-a-Day Tours, Inc.	Other Frommer Companies	Combined total
1,841,622	469,921	2,311,543	2,292,988	535,185	2,828,173	3,116,045	474,451	3,590,496
1,451,640	286,042	1,737,682	1,801,114	282,967	2,084,081	2,310,064	256,325	2,566,389
389,982	183,879	573,861	491,874	252,218	744,092	805,981	218,126	1,024,107
381,782	152,316	534,098	467,393	168,148	635,541	731,876	200,356	932,232
8,200	31,563	39,763	24,481	84,070	108,551	74,105	17,770	91,875
10,560	274	10,834	9,064	1,312	10,376	14,860	494	15,354
18,760	31,837	50,597	33,545	85,382	118,927	88,965	18,264	107,229
—	1,040	1,040	1,467	—	1,467	5,500	—	5,500
18,760	30,797	49,557	32,078	85,382	117,460	83,465	18,264	101,729
4,136	3,680	7,816	10,119	29,707	39,826	36,250	4,857	41,107
14,624	27,117	41,741	21,959	55,675	77,634	47,215	13,407	60,622

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THE FROMMER GROUP OF COMPANIES

COMBINED STATEMENT OF EARNINGS (Continued)

	Nine months ended May 31, 1968 (unaudited)			Nine months ended May 31, 1969 (unaudited)		
	Five Dollar-a-Day Tours, Inc.	Other Frommer Companies	Combined total	Five Dollar-a-Day Tours, Inc.	Other Frommer Companies	Combined total
Revenue:						
Service	$1,895,026	$314,154	$2,209,180	$2,924,899	$681,923	$3,606,822
Cost of services	1,446,242	166,827	1,613,069	2,335,586	371,830	2,707,416
Gross profit	448,784	147,327	596,111	589,313	310,093	899,406
Selling, general and administrative expenses	403,365	123,033	526,398	536,737	198,358	735,095
Income from operations	45,419	24,294	69,713	52,576	111,735	164,311
Other income	11,309	—	11,309	10,734	—	10,734
Other deductions	2,378	—	2,378	634	—	634
Earnings before income taxes	54,350	24,294	78,644	62,676	111,735	174,411
Provision for Federal income taxes (Note 4)	20,795	4,949	25,744	32,928	35,845	68,773
Net earnings	$ 33,555	$ 19,345	$ 52,900	$ 29,748	$ 75,890	$ 105,638

3(c). MAR-CLAY MILLS, INC.

Reasons for the Merger

The proposed merger of Mar-Clay Mills, Inc. ("Mar-Clay") into NSMC will permit the Company to expand its youth oriented product group to include hosiery. It is felt by the NSMC Board of Directors that the Company will enhance the business of Mar-Clay by providing the marketing services of NSMC.

Recommendation of Management

The terms of the proposed merger were agreed upon in arms' length negotiations between the officers of both companies. Among the factors considered in fixing the number of shares of NSMC Common Stock to be issued were the relative earning power of both enterprises based on past and anticipated operations, the relative balance sheet positions, the general financial position of both companies and their long-range prospects. The Boards of Directors of NSMC and Mar-Clay have unanimously approved the plan of merger and believe that such plan is fair and equitable, and recommend to the stockholders of NSMC and Mar-Clay that they vote in favor of it.

Description of the Agreement

The terms of the proposed merger are contained in an Agreement and Plan of Merger dated as of the 8th day of August, 1969 between NSMC and Mar-Clay and confirmed and agreed to by each of the four stockholders of Mar-Clay ("Mar-Clay Plan"). The following description of such plan is only a summary of certain of its provisions and does not purport to be complete and is subject in all respects to the plan itself, which is attached hereto as Schedule F and to which reference is hereby made.

The merger will become effective upon the filing of Articles of Merger in accordance with the laws of the Commonwealth of Pennsylvania and the District of Columbia as soon as practicable after the approval of the stockholders of both corporations. It is presently contemplated that the effective date of the merger will be prior to October 31, 1969.

Upon the effectiveness of the merger each issued and outstanding share of Mar-Clay Common Stock will be automatically cancelled and there shall be exchanged therefor 375 shares of NSMC Common Stock. Shareholders of Mar-Clay who dissent and comply with Pennsylvania law will receive the fair value of their shares. On the assumption that no Mar-Clay stockholders dissent, a maximum of 300,000 shares of NSMC Common Stock will be issuable upon consummation of the merger. Because the parties to the Mar-Clay Plan were unable to agree upon the value of Mar-Clay, immediately upon receipt of the aforementioned shares of NSMC Common Stock the stockholders of Mar-Clay will deposit in escrow 140,000 of such shares to indemnify NSMC against any "Earnings Deficiency" or "Loss" as defined in the Escrow Agreement appended to the Mar-Clay Plan. The purpose of such escrow arrangement is to insure that the final number of shares of NSMC Common Stock received by the stockholders of Mar-Clay is based upon the actual future earnings of the new NSMC subsidiary to which the business of Mar-Clay will be transferred immediately after the effectiveness of the merger. The escrowed stock will also be used to indemnify NSMC against any loss, liability or reasonable and actual expense incurred by NSMC as a result of any misrepresentation or breach of warranty of the stockholders of Mar-Clay contained in the Mar-Clay Plan to the extent such liabilities exceed, in the aggregate, $5,000. No fractional shares or scrip will be issued by NSMC and fractional interests of each Mar-Clay stockholder will be increased or decreased to the nearest whole share upon the release of any such shares from escrow to such stockholders.

The obligations of NSMC, Mar-Clay and the Mar-Clay stockholders under the plan are subject to the fulfillment of certain conditions prior to the consummation of the plan including the truth of their

respective representations and warranties when the plan is consummated and delivery of certain opinions of counsel.

The obligations of Mar-Clay and the Mar-Clay stockholders are subject to the additional condition that NSMC shall have received an order from the Securities and Exchange Commission declaring effective under the Securities Act of 1933, as amended, a registration statement relating to the proposed sale by the stockholders of not more than twenty-five percent of the shares of NSMC Common Stock to be received by the stockholders pursuant to the plan free of escrow restrictions. In connection with such registration, NSMC is obligated under the plan to pay to the stockholders the amount by which $1,600,000 exceeds the aggregate proceeds to the stockholders from the sale of shares of NSMC Common Stock registered as aforesaid with pro-rata reduction if fewer than 40,000 shares are registered and sold, except that such payment shall in no event exceed $300,000.

The obligations of NSMC are subject to the additional conditions that (i) the Mar-Clay stockholders shall have executed the Escrow Agreement, (ii) the stockholders of NSMC shall have approved an amendment to the NSMC Articles of Incorporation increasing the number of authorized shares of of NSMC Common Stock and approving the Mar-Clay Plan and (iii) the number of shares of NSMC Common Stock owned by NSMC stockholders exercising their rights as dissenting stockholders under District of Columbia law shall not have exceeded two percent of the outstanding shares of NSMC Common Stock.

Pursuant to the Mar-Clay Plan each Mar-Clay stockholder has agreed not to sell his shares of NSMC Common Stock received upon the merger, except pursuant to the initial registration described above without a favorable opinion of NSMC counsel to the effect that the proposed transfer or disposition does not require registration of such shares of NSMC Common Stock under the Securities Act of 1933, as amended. NSMC has agreed that in the event of any registration of NSMC Common Stock on Form S-1 within four years after the effectiveness of the merger NSMC will use its best efforts to register all or part of the NSMC Common Stock of any Mar-Clay stockholder so requesting. Notwithstanding the foregoing, each Mar-Clay stockholder has agreed that he will not dispose of any shares of NSMC Common Stock, except pursuant to the initial registration statement the effectiveness of which is a condition of the obligations of Mar-Clay and Mar-Clay stockholders, if in the opinion of NSMC's independent public accountants such disposition will result in the accounting treatment of the merger being other than a "pooling of interests".

NSMC has agreed to conduct business in Pennsylvania so as to be liable to pay a franchise tax to such state and to be required to be qualified as a foreign corporation doing business in such state. In addition NSMC is obligated to pay in cash to the Mar-Clay stockholders the amount of tax saving to NSMC if NSMC claims any deduction from its income for federal income tax purposes for any interest attributable to the release of shares of NSMC Common Stock from escrow to such stockholders.

The Mar-Clay Plan provides that Mar-Clay will conduct its business solely in the usual and ordinary manner and will refrain from any transactions not in the ordinary course of business except with the written consent of NSMC to such transactions. Mar-Clay has agreed that NSMC and its authorized representatives shall, from and after the date of the Mar-Clay Plan, have full access to the properties and the books and records of every kind of Mar-Clay. NSMC intends to call in all presently outstanding loans from Mar-Clay to officers of Mar-Clay within 180 days after the merger becomes effective.

Accounting Treatment

The transaction is considered to be a pooling of interests for accounting purposes. Therefore, under generally accepted accounting principles, NSMC will carry forward the retained earnings and the net assets of Mar-Clay at their book values.

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Description of Mar-Clay Mills, Inc.

Business

Mar-Clay Mills, Inc., a Pennsylvania corporation, was organized in June, 1962 to engage in the production and sale of hosiery and related products, assuming the operations of a partnership which operated a hosiery mill in Philadelphia. In 1965 Mar-Clay officers supervised construction of a new hosiery mill in Milford, Delaware, such mill being financed by a bond issue of $850,000 by the Milford Industrial Development Corporation Number One. The new mill was designed by present management to integrate various processes used in the production of hosiery and to reduce the number of production steps necessary to complete a finished stocking. The mill is a completely integrated plant, which receives yarn, dye stocks and packaging material and produces finished, packaged hosiery.

Products include basic tubular seamless mesh stockings, one-size stretch stockings and panty hose. The styles which comprise most of the present business are basic styles in the hosiery industry. The styles are low-priced stockings, for resale through self-service discount retail outlets. Mar-Clay does not compete in the branded hosiery area. Although the company does package stockings under two of its own labels, most of its output is packaged under the name of the particular customer to which such output is sold.

Property

Mar-Clay owns ten acres of ground in Milford which is zoned for industrial use. The current mill is a 30,000 square foot one-story masonry building which is air-conditioned and humidity controlled. Approximately 2,000 square feet are used for administrative purposes, the balance containing the production facilities. Additional production facilities to permit a doubling of the company's capacity are currently under construction.

Employees

As Milford is predominantly an agricultural community, it is necessary for the company to train workers who are unfamiliar with the hosiery business. The company presently has approximately 150 employees. Each employee is trained as an expert in one particular mechanical operation. By utilizing staggered shifts on the knitting operations, the company operates seven days a week, 24 hours a day. Employees conducting operations subsequent to knitting, i.e. sewing, forming, dyeing, packaging and labeling, are compensated on a piece work basis. At the present time no employees are members of a union.

Competition

The low cost stocking industry is highly competitive and a company may enter the field with relative ease, opening up the possibility of the development of excess capacity in the area. Most purchasing is based upon price alone, there being little brand loyalty and few strong relationships between manufacturers and wholesalers.

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MAR-CLAY MILLS, INC.

STATEMENT OF INCOME (LOSS)

The following statement of income (loss) for the five years ended May 31, 1968 and for the nine months ended May 31, 1968 and 1969 sets forth the results of operations of Mar-Clay Mills, Inc. The statement so far as it relates to the two years ended May 31, 1968 has been examined by Laventhol Krekstein Horwath & Horwath, independent certified public accountants and should be read in conjunction with their report, the financial statements and notes to financial statements included elsewhere in this proxy statement. With respect to the nine months ended May 31, 1968 and 1969, which are unaudited, management believes that all adjustments, none of which were other than normal recurring accruals, necessary to a fair statement of results of operations for such periods have been included.

	Year ended May 31,					Nine Months ended May 31, (unaudited)	
	(unaudited)			(audited)			
	1964	1965	1966	1967	1968	1968	1969
Net sales	$1,244,536	$997,956	$ 691,756	$1,421,782	$1,657,000	$1,307,630	$1,866,417
Cost of sales	1,120,715	876,434	764,738	1,250,537	1,200,513	933,802	1,241,890
Gross profit (loss)	123,821	121,522	(72,982)	171,245	456,487	373,828	624,527
Selling, general and administrative expenses	143,758	122,664	88,632	276,672	128,536	104,679	152,392
Income (loss) from operations	(19,937)	(1,142)	(161,614)	(105,427)	327,951	269,149	472,135
Other income:							
Interest	—	—	16,187	4,414	8,218	8,218	10,902
Management services	—	—	7,800	—	—	—	—
Gain on sale of machinery	—	19,057	—	—	—	—	—
Miscellaneous	2,896	101	108	3,284	854	886	8,084
	2,896	19,158	24,095	7,698	9,072	9,104	18,986
	(17,041)	18,016	(137,519)	(97,729)	337,023	278,253	491,121
Other deductions:							
Loss on investment	—	—	—	25,000	—	—	—
Interest and factoring charges	31,018	23,590	44,977	90,541	113,375	87,525	86,658
Loss on abandonment of leasehold improvements	—	—	18,111	—	—	—	—
Miscellaneous	—	—	—	4,245	2,089	2,089	315
	31,018	23,590	63,088	119,786	115,464	89,614	86,973
Income (loss) before taxes on income and extraordinary item	(48,059)	(5,574)	(200,607)	(217,515)	221,559	188,639	404,148
Taxes on income	—	—	—	—	106,618	94,179	217,566
Income (loss) before extraordinary item	(48,059)	(5,574)	(200,607)	(217,515)	114,941	94,460	186,582
Extraordinary item—Federal income tax reduction resulting from carryforward of prior years' operating loss	—	—	—	—	105,718	93,519	167,767
Net income (loss)	$ (48,059)	$ (5,574)	$(200,607)	$ (217,515)	$ 220,659	$ 187,979	$ 354,349

The decline in volume of sales and related costs during the years 1965 and 1966 was the result of moving to new facilities to increase manufacturing capacity which required training of employees.

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3(d). MAILBAG COMPANIES

General

NSMC has entered into agreements providing for the mergers of Mailbag International, Inc. ("Mailbag") and M.I.I. Services, Inc. ("MII"), with and into NSMC. In addition, on August 8, 1969 NSMC entered into three related, but independent, agreements as follows: (i) agreement ("Dufftor Agreement") with the stockholders of Dufftor Holding Limited ("Dufftor") to purchase all of the issued and outstanding stock of Dufftor, (ii) agreement ("YMI Agreement") with the sole stockholder of Youth Marketing, Inc. ("YMI") to purchase all of the issued and outstanding stock of YMI and (iii) agreement ("Torgis Agreement") with Mr. William H. Torgis ("Torgis") to purchase the trademarks "Minibag" and "Mardigras". The latter three transactions closed on August 8, 1969 and are independent of the mergers of Mailbag and MII into NSMC.

Pursuant to the Dufftor Agreement NSMC paid an aggregate of $850,000 ($550,000 in cash and $300,000 in notes due December 15, 1969). As security for such notes, NSMC deposited in escrow the Dufftor stock received, the "Mailbag" trademark registration and the assignment to NSMC of such trademark (collectively the "Security"). If the notes paid under the Dufftor Agreement are not paid when due, the stockholder of Dufftor has the option of (i) directing the escrow agent to return the Security forthwith to him at which time all obligations of NSMC to pay such notes shall forthwith terminate, or (ii) instructing the escrow agent to deliver the Security to NSMC and at his option pursuing his legal remedies against NSMC for collection of the amounts then owing on the notes. The trademark "Mailbag" is owned by a subsidiary of Dufftor.

Under the YMI Agreement NSMC paid an aggregate of $850,000 ($250,000 in cash and $600,000 in notes due February 2, 1970). As security for such notes NSMC deposited the YMI stock in escrow. If the notes issued pursuant to the YMI Plan are not paid when due by NSMC, the former stockholder of YMI has the option of (i) directing the escrow agent to return the YMI stock forthwith to him at which time all obligations of NSMC to pay such notes shall forthwith terminate, or (ii) instructing the escrow agent to deliver the YMI stock to NSMC and at his option pursuing his legal remedies against NSMC for collection of the amounts then owing on the notes.

NSMC issued a note for $80,000 due December 15, 1969 to Torgis in exchange for the trademarks "Minibag" and "Mardigras" pursuant to the Torgis Agreement. As security for such note, NSMC deposited in escrow copies of the registrations of such trademarks together with assignments of the trademarks to NSMC.

Reason for the Mergers

The proposed mergers of Mailbag and MII into NSMC will expand NSMC's ability to reach the youth market through the vehicle of mass cooperative mailings.

Recommendation of Management

The terms of the proposed mergers were agreed upon in arms' length negotiations between the officers of each of the companies involved. Among the factors considered in fixing the number of shares of NSMC Common Stock to be issued were the relative earning power of the enterprises based on past and anticipated operations, the relative balance sheet positions, the general financial position of each company and its long range prospects. The Boards of Directors of NSMC, Mailbag and MII have unanimously approved the plans and believe that each plan is fair and equitable, and recommend to the stockholders of NSMC, Mailbag and MII, respectively, that they vote in favor of it.

Description of the Mailbag Agreement

The terms of the proposed merger of Mailbag into NSMC are contained in an Agreement and Plan of Merger dated as of the 8th day of August, 1969 between NSMC, Mailbag, and the stockholders of Mailbag ("Mailbag Plan"). The following description of such plan is only a summary of certain of its provisions and does not purport to be complete and is subject in all respects to the plan itself, which is attached hereto as Schedule G and to which reference is hereby made.

The merger will become effective upon the filing of Articles of Merger in the District of Columbia and the filing of a Certificate of Merger in the State of New York as soon as practicable after the adoption

thereof by the stockholders of NSMC and Mailbag. NSMC will be the surviving corporation. It is presently contemplated that the effective date of the transaction will be prior to October 31, 1969. The plan may also be terminated and abandoned by the mutual consent of the Boards of Directors of NSMC and Mailbag at any time prior to the effective date of the merger.

Upon the effectiveness of the merger, each issued and outstanding share of Mailbag Common Stock will be exchanged for 858.6 shares of NSMC Common Stock, resulting in the issuance of an aggregate of 38,637 shares of NSMC stock. Upon receipt of such shares the Mailbag stockholders will deposit in escrow 3,864 shares of NSMC stock to indemnify NSMC against any Loss as defined in the Escrow Agreement attached to the plan.

The obligations of NSMC, Mailbag and Mailbag stockholders under the plan are subject to the fulfillment of certain conditions prior to the consummation of the plan including the truth of their respective representations and warranties when the plan is consummated and delivery of certain opinions of counsel.

The obligations of NSMC are subject to the additional conditions that (i) the Mailbag stockholders shall have executed the escrow agreement, (ii) the stockholders of NSMC shall have approved an amendment to the NSMC Articles of Incorporation increasing the number of authorized shares of NSMC Common Stock, (iii) the number of shares of NSMC Common Stock owned by NSMC stockholders exercising their rights as dissenting stockholders under District of Columbia law shall not have exceeded two percent of the outstanding shares of NSMC Common Stock, and (iv) the after tax earnings of Mailbag for the eight month period ended August 31, 1969 shall be not less than $90,000.

The obligations of Mailbag and the Mailbag stockholders are subject to the additional condition that NSMC shall have received an order from the Securities and Exchange Commission declaring effective under the Securities Act of 1933, as amended, a registration statement relating to the proposed sale by the stockholders of certain shares of NSMC Common Stock received by them pursuant to the plan.

Pursuant to the Mailbag Plan each Mailbag stockholder has agreed not to sell his shares of NSMC Common Stock received upon the merger in violation of the Securities Act of 1933, as amended. NSMC is obligated to offer the stockholders of Mailbag the opportunity to join in any registration on Form S-1 for a period of three years after the effective date of the merger. The expenses of such registration including, without limitation, printing costs and fees and disbursements of counsel and independent accountants will be borne by NSMC, except that any underwriters' discounts and charges and applicable registration fee under the Act, allocable to the stockholders, and counsel fees and expenses of the stockholders shall be borne by the stockholders. Notwithstanding the above rights of registration, the Mailbag stockholders have agreed that they will not dispose of any shares of NSMC Common Stock if in the opinion of NSMC's independent public accountants, such disposition will result in the accounting treatment of the transaction being other than at least a fifty percent "pooling of interests".

The Mailbag Plan provides that during the period from the date of the plan to the effective date, Mailbag will conduct its business solely in the usual and ordinary manner except to the extent Mailbag is prevented from so doing by NSMC and will refrain from any transactions not in the ordinary course of business unless the prior written consent of NSMC to such transactions has been obtained.

Description of the MII Agreement

The terms of the proposed merger of MII into NSMC are contained in an Agreement and Plan of Merger dated as of the 8th day of August, 1969 between NSMC, MII and the sole beneficial stockholder of MII ("MII Plan"). The following description of such plan is only a summary of certain of its provisions and does not purport to be complete and is subject in all respects to the plan itself, which is attached hereto as Schedule H and to which reference is hereby made.

The form of the MII Plan is basically the same as that of the Mailbag Plan, containing similar representations and warranties and conditions. Upon the effectiveness of the merger, each issued and outstanding share of MII Common Stock will be exchanged for 1294.925 shares of NSMC Common Stock, resulting in the issuance of an aggregate of 51,797 shares of NSMC stock. Upon receipt of such shares the MII stockholder will deposit in escrow 5,180 such shares to indemnify NSMC against any Loss as defined in the Escrow Agreement attached to the plan.

The obligations of NSMC under the MII Plan are subject to the condition that the financial statements of MII for the 11 month period ended August 31, 1969 shall reflect after tax earnings of not less than $85,000.

Accounting Treatment

The Mailbag and MII mergers are to be treated as 63 percent poolings of interest for accounting purposes. Therefore, under generally accepted accounting principles, NSMC will carry forward 63 percent of the retained earnings and 63 percent of the net assets of Mailbag and MII at their book values and the remaining portion will be treated as a purchase.

Description of Mailbag and MII

Mailbag, a New York corporation, was incorporated in 1962. It is principally engaged in the publication of various editions of "Mailbag", a cooperative mailing package sent out in the spring and fall to high school students. "Mailbag" editions include high school editions published in March and September with national coverage in all fifty states proportioned to student high school populations, each Mailbag being personally addressed and delivered to the student's home.

Mailbag is available to advertisers on an exclusive product or service category basis. Participating advertisers have first renewal rights for the same edition in subsequent years. Advertisers in the various Mailbag programs are primarily major national advertisers of branded cosmetic and toiletry items. Mailbag offers its clients a complete marketing program which goes beyond the mechanical aspects of a cooperative mailing facility. The objective of each Mailbag package is to create a controlled selling environment which through careful design, editing, list control and programming of content, will induce the reader to achieve high levels of readership and response. The company reserves the right to reject insertions which do not comply with the company's editorial policies.

Mailbag typically designs the product offer for participating advertisers, writes copy and designs the advertisement to be used, and arranges for most of the ancillary aspects of the program, including arranging for printing of inserts, setting up of order fulfillment facilities, and research on program results. Mailbag provides market research feedback to each client included in the various editions of Mailbag. Generally, research questionnaires are prepared jointly with the client, Mailbag handles the mailing of the questionnaires, and the client generally tabulates the results. In some cases where the client is not particularly interested in conducting the research or designing the questionnaires, Mailbag arranges for all of the research, and provides the client with the results. The research provides considerable information on levels of readership, changes in brand awareness, consumer brand conversion, measurement of advertising effectiveness, and sample response. In addition, the company obtains purchase awareness through direct contact with brand managers.

In 1967 the printing and list operations of Mailbag were spun off organizationally, MII being formed to handle the printing and production. Thus MII is principally engaged in the creation of marketing and promotional programs for the manufacturers of nationally branded cosmetics and toiletries. MII publishes two editions of a cooperative mailing—"Mardigras", aimed at 1,250,000 young working women and "Minibag", aimed at younger high school students, grades 8 through 10. Coverage is national.

MII performs a variety of services for Mailbag, including the booking of all "per inquiry" sales for the various Mailbag editions. MII maintains art studio facilities through its J. S. Graphics Division, serving a variety of accounts in the fields of advertising art and design. It performs research on a variety of advertising projects, including all participations in Minibag and Mardigras. It also has programs designed to compile high school student names and addresses which are used for the various mailing programs.

Youth Marketing, Incorporated is principally engaged in the compilation and conversion to magnetic tape of mailing lists of high school students. The company's files at the present time contain more than three million student names and addresses. The company provides these mailing lists for various programs for Mailbag and MII, and also has rented mailing lists to individual mailers for unrelated mailings.

As noted above, a subsidiary of Dufftor owns the trademark "Mailbag".

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THE MAILBAG GROUP

COMBINED STATEMENT

The following statement of earnings sets forth the results of operations of the Mailbag Group of Companies. The statement, so far as it relates to the three years ended December 31, 1968, except for Dufftor Holding, Limited, has been examined by Pustorino, Puglisi, Behan & Co., independent certified public accountants, and should be read in conjunction with their report, the financial statements of the Mailbag Group of Companies

	Year ended				
	(unaudited)		(audited)	(audited) Mailbag Group combined except Dufftor	Dufftor Holding Limited
	1964	1965	1966		
Income:					
Services	$1,124,781	1,134,330	1,129,654	1,989,006	—
Dividend from wholly-owned subsidiary	—	—	—	—	75,759
	1,124,781	1,134,[illegible]	1,129,654	1,989,006	75,759
Costs and expenses:					
Cost of goods sold	789,498	739,071	701,292	1,317,996	—
Selling, general and administrative	292,420	366,034	384,345	464,886	8,073
Total costs and expenses	1,081,918	1,105,105	1,085,637	1,782,882	8,073
Net income before provision for taxes and extraordinary charge	42,863	29,225	44,017	206,124	67,686
Provision for taxes	1,800	7,187	17,101	105,629	—
Net earnings (loss) before extraordinary charge	41,063	22,038	26,916	100,495	67,686
Extraordinary charge—reduction in value of investment in wholly-owned subsidiary	—	—	—	—	—
Net earnings (loss)	$ 41,063	22,038	26,916	100,495	67,686

* During 1968 the sales force was not as effective as in 1967 and as a result sales declined for the year ended December 31, 1968. The decline in sales along with a percentage increase in costs and expenses resulted in a net loss for the year ended December 31, 1968.

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OF COMPANIES

OF EARNINGS

and notes thereto included elsewhere in this proxy statement. With respect to the accounts of Dufftor Holding, Limited and the combined statements for the nine months ended May 31, 1968 and 1969, which are unaudited, management believes that all adjustments, none of which were other than normal recurring accruals, necessary to a fair statement of results of operations for such periods have been included.

December 31, 1967 (unaudited)		1968* (audited)	1968* (unaudited)			(unaudited) Nine months ended May 31,	
Elimi-nations	Combined balance	Mailbag Group combined except Dufftor	Dufftor Holding Limited	Elimi-nations	Combined balance	1968* Combined	1969 Combined
—	1,989,006	1,759,851	—	—	1,759,851	1,635,921	2,232,173
(75,759)	—	—	70,167	(70,167)	—	—	—
(75,759)	1,989,006	1,759,851	70,167	(70,167)	1,759,851	1,635,921	2,232,173
—	1,317,996	1,288,726	—	—	1,288,726	1,177,046	1,480,284
(75,759)	397,200	513,031	(2,676)	(70,167)	440,188	431,232	443,418
(75,759)	1,715,196	1,801,757	(2,676)	(70,167)	1,728,914	1,608,278	1,923,702
—	273,810	(41,906)	72,843	—	30,937	27,643	308,471
—	105,629	(18,215)	—	—	(18,215)	1,331	152,493
—	168,181	(23,691)	72,843	—	49,152	26,312	155,978
—	—	—	(77,496)	—	(77,496)	—	—
—	168,181	(23,691)	(4,653)	—	(28,344)	26,312	155,978

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RIGHTS OF DISSENTING STOCKHOLDERS OF NSMC

The District of Columbia Business Corporation Act provides certain rights to dissenting stockholders who take the necessary action to protect their appraisal rights with respect to the merger proposals described in this Proxy Statement. The statutory provision relating to rights of dissenting stockholders is set forth in full in Schedule I hereto and the following brief summary is qualified in its entirety by reference to such schedule. In order to obtain the fair value of his shares, an NSMC stockholder must (i) file with NSMC prior to the commencement of the voting by NSMC stockholders on the acquisition program a written objection to such program, (ii) not vote in favor of such program and (iii) within twenty days after the date of the vote, make a written demand for the payment of the fair value of his shares. Neither a proxy nor a vote against the program shall constitute such a written objection. Such shareholder shall state the number of shares owned by him with respect to which he dissents. If the fair value is then agreed upon within thirty days after the effectiveness of the mergers, NSMC shall make payment within ninety days after such effective date upon the surrender by the stockholder of his stock certificates. If no such agreement as to the fair value is reached, provision is made for judicial relief.

OTHER MATTERS

The information under the headings "Business of Interstate National Corporation", "Description of Five-Dollar-A-Day Tours, Inc.", "Description of Frommer-Pasmantier Publishing Corporation", Description of Mar-Clay Mills, Inc." and "Description of Mailbag and MII" and the financial data with respect to such companies were furnished to NSMC by such companies for inclusion herein.

The management knows of no other matters which are to be brought before the special meeting. However, if any other matters properly come before the meeting, it is the intention of the persons named in the enclosed form of proxy to vote said proxy in accordance with their judgment on such matters.

By Order of the Board of Directors

JOHN GLANDON DAVIES,
Secretary

Dated at Washington, D. C.
September 27, 1969

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NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES, INTERSTATE NATIONAL CORPORATION AND SUBSIDIARIES, THE FROMMER GROUP OF COMPANIES, MAR-CLAY MILLS, INC., AND THE MAILBAG GROUP OF COMPANIES

PRO FORMA COMBINED CONDENSED BALANCE SHEET

May 31, 1969

(Unaudited)

ASSETS

	National Student Marketing Corporation and subsidiaries	Frommer Group of Companies	Interstate National Corporation and subsidiaries	Mar-Clay Mills, Inc.	Mailbag Group of Companies	Pro Forma Adjustments	Pro Forma Combined
Bonds			$23,397,686				$23,397,686
Stocks, other than subsidiaries:							
Preferred			1,380,225				1,380,225
Common			2,342,691				2,342,691
Stock of affiliated insurance company			1,144,458				1,144,458
Cash	$ 1,195,229	$ 998,853	1,716,169	$ 38,702	$346,694	$ (340,000) (1)	3,755,647
Receivables	5,827,199	1,329,918	8,744,750	423,979	426,481		16,752,327
Inventories	3,170,603	96,384		244,844			3,511,831
Deferred costs	2,630,969						2,630,969
Prepaid expenses	291,954	34,116	1,916,706	20,934	19,630		2,283,340
Notes receivable	101,786			38,020			139,806
Accrued investment income			296,208				296,208
Investment in and advances to non-consolidated subsidiary	25,947	132,614			60,000		218,561
Property, plant and equipment, at cost less accumulated depreciation	1,467,557	62,737	516,759	986,151	16,012		3,049,216
Cost of investment in subsidiaries in excess of underlying value of net assets at date of acquisition	8,013,124					1,653,211(1)	9,666,335
Estimated future Federal income tax benefit arising from employment agreement			64,000				64,000
Other assets	984,278	7,364	842,288	122,159	16,698		1,972,787
Total assets	$23,708,646	$2,661,986	$42,361,940	$1,874,789	$885,515	$1,113,211	$72,606,087

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NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES, INTERSTATE NATIONAL CORPORATION AND SUBSIDIARIES, THE FROMMER GROUP OF COMPANIES, MAR-CLAY MILLS, INC., AND THE MAILBAG GROUP OF COMPANIES

PRO FORMA COMBINED CONDENSED BALANCE SHEET

May 31, 1969

(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY

	National Student Marketing Corporation and subsidiaries	Frommer Group of Companies	Interstate National Corporation and Subsidiaries	Mar-Clay Mills Inc.	Mailbag Group of Companies	Pro Forma Adjustments	Pro Forma Combined
Losses and claims			$14,565,589				$14,565,589
Loss adjustment expenses			2,909,466				2,909,466
Unearned premiums			5,826,898				5,826,898
Ceded reinsurance payable			2,197,416				2,197,416
Funds held under reinsurance payable			1,977,837				1,977,837
Premiums payable to underwriters			4,470,778				4,470,778
Federal and Canadian income taxes payable	$ 559,507	$ 102,007	67,000	$ 53,247	$149,747		931,508
Liability for employment agreement			528,876				528,876
Notes payable	4,611,381	45,113					4,656,494
Current installment of long-term debt	40,182			161,418			201,600
Accounts payable	2,053,873	2,026,292		88,465	194,713		4,363,343
Customers deposits	1,573,893	5,267			21,952		1,601,112
Accrued costs and expenses	1,472,503	78,918			176,430		1,727,851
Deferred income taxes (current)	134,879						134,879
Other liabilities	18,319	7,858	1,006,422	111,690			1,144,289
Deferred income taxes (long-term)	97,424						97,424
Long-term debt, less current installments	3,599,393			1,108,190		$1,780,000(1)	6,487,583
Minority stockholders equity in subsidiaries	18,826						18,826
Total liabilities	14,180,180	2,265,455	33,550,282	1,523,010	542,842	1,780,000	53,841,769
Stockholders' equity:							
Preferred stock, no par value, stated value $20 per share. Authorized 1,000,000 shares; issued 27,000 shares			540,000			(540,000)(3)	
Preferred stock $1.00 par value; 3% non-cumulative, non-voting; authorized 40,000 shares. Issued 22,100 shares					22,100	(22,100)(1)	
Common stock $1.00 par value per share. Authorized 2,000,000 shares; issued 700,000 shares			700,000			(700,000)(3)	
Common stock par value $.025; per share. Authorized 3,000,000 shares; issued 2,896,555 shares (pro forma 4,093,412 shares)	72,414					29,921(1)(3)	102,335
Capital stock, no par. Authorized 1,000 shares; issued 200 shares					200	(200)(1)	
Common stock—Mailbag group					2,600	(2,600)(1)	
Common stock, par value $1.00; authorized 2,000 shares; issued 800 shares				80,000		(80,000)(1)	
Capital stock of Frommer Companies		3,651				(3,651)(1)	
Additional paid in surplus	7,869,865		4,805,244	109,085	24,900	680,977(1)(3)	13,490,071
Retained earnings	1,598,076	392,880	2,845,608	162,694	292,873	(108,330)(1)	5,183,801
	9,540,355	396,531	8,890,852	351,779	342,673	(745,983)	18,776,207
Less cost of treasury stock	(11,889)		(79,194)			79,194(3)	(11,889)
Stockholders' equity	9,528,466	396,531	8,811,658	351,779	342,673	(666,789)	18,764,318
	$23,708,646	$2,661,986	$42,361,940	$1,874,789	$885,515	$1,113,211	$72,606,087

This pro forma statement gives effect to the proposed exchange of shares of National Student Marketing Corporation common stock as described in the accompanying notes to the pro forma combined condensed balance sheets to which the above numerical references apply.

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Government's Exhibit 25

NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES MAR-CLAY MILLS, INC., THE FROMMER GROUP OF COMPANIES AND THE MAILBAG GROUP OF COMPANIES

PRO FORMA COMBINED CONDENSED BALANCE SHEET

May 31, 1969

(Unaudited)

ASSETS

	National Student Marketing Corporation and subsidiaries	Frommer Group of Companies	Mar-Clay Mills, Inc.	Mailbag Group of Companies	Pro Forma Adjustments	Pro Forma Combined
Cash	$ 1,195,229	$ 998,853	$ 38,702	$346,694	$ (540,000) (1)	$ 2,039,478
Receivables	5,827,199	1,329,918	423,979			8,007,577
Inventories	3,170,603	96,384	244,844			3,511,831
Deferred costs	2,630,969					2,630,969
Prepaid expenses	291,954	34,116	20,934	19,630		366,634
Notes receivable	101,786		38,020			139,806
Investment in and advances to non-consolidated subsidiary	25,947	132,614		60,000		218,561
Property, plant and equipment, at cost less accumulated depreciation	1,467,557	62,737	986,151	16,012		2,532,457
Cost of investment in subsidiaries in excess of underlying value of net assets at date of acquisition	8,013,124				1,653,211 (1)	9,666,335
Other assets	984,278	7,364	122,159	16,698		1,130,499
Total assets	$23,708,646	$2,661,986	$1,874,789	$885,515	$1,113,211	$30,244,147

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Government's Exhibit 25

NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES, MAR-CLAY MILLS, INC., THE FROMMER GROUP OF COMPANIES AND THE MAILBAG GROUP OF COMPANIES

PRO FORMA COMBINED CONDENSED BALANCE SHEET

May 31, 1969

(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY

	National Student Marketing Corporation and subsidiaries	Frommer Group of Companies	Mar-Clay Mills, Inc.	Mailbag Group of Companies	Pro Forma Adjustments	Pro Forma Combined
Federal and Canadian income taxes payable	$ 559,507	$ 102,007	$ 53,247	$149,747		$ 864,508
Liability for employment agreement						
Notes payable	4,611,381	45,113				4,656,494
Current installment of long-term debt	40,182		161,418			201,600
Accounts payable	2,053,873	2,026,292	88,465	194,713		4,363,343
Customers deposits	1,573,893	5,267		21,952		1,601,112
Accrued costs and expenses	1,472,503	78,918		176,430		1,727,851
Deferred income taxes (current)	134,879					134,879
Other liabilities	18,319	7,858	111,690			137,867
Deferred income taxes (long-term)	97,424					97,424
Long-term debt, less current installments	3,599,393		1,108,190		$1,780,000 (1)	6,487,583
Minority stockholders equity in subsidiaries	18,826					18,826
Total liabilities	14,180,180	2,265,455	1,523,010	542,842	1,780,000	20,291,487
Stockholders' equity:						
Preferred stock $1.00 par value; 3% non-cumulative, non-voting; authorized 40,000 shares. Issued 22,100 shares				22,100	(22,100)(1)	
Common stock par value $.025 per share. Authorized 3,000,000 shares; issued 2,896,555 shares (pro forma 3,266,746 shares)	72,414				9,320 (1)	81,734
Capital stock, no par. Authorized 1,000 shares; issued 200 shares				200	(200)(1)	
Common stock—Mailbag group				2,600	(2,600)(1)	
Common stock, par value $1.00; authorized 2,000 shares; issued 800 shares			80,000		(80,000)(1)	
Capital stock of Frommer Companies		3,651			(3,651)(1)	
Additional paid in surplus	7,869,865		109,085	24,900	(459,228)(1)	7,544,622
Retained earnings	1,598,076	392,880	162,694	292,873	(108,330)(1)	2,338,193
	9,540,355	396,531	351,779	342,673	(666,789)	9,964,549
Less cost of treasury stock	(11,889)					(11,889)
Stockholders' equity	9,528,466	396,531	351,779	342,673	(666,789)	9,952,660
	$23,708,646	$2,661,986	$1,874,789	$885,515	$1,113,211	$30,244,147

This pro forma statement gives effect to the proposed exchange of shares of National Student Marketing Corporation common stock as described in the accompanying notes to the pro forma combined condensed balance sheets to which the above numerical references apply.

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Government's Exhibit 25

NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES
INTERSTATE NATIONAL CORPORATION AND SUBSIDIARIES
THE FROMMER GROUP OF COMPANIES, MAR-CLAY MILLS. INC., AND THE MAILBAG GROUP OF COMPANIES

NOTES TO PRO FORMA COMBINED CONDENSED BALANCE SHEETS

May 31, 1969

(UNAUDITED)

(1) ACCOUNTING TREATMENT RELATING TO PROPOSED ACQUISITIONS OTHER THAN INTERSTATE.

The proposed acquisition of the following companies for the amounts of cash and number of shares of common stock of National Student Marketing Corporation shown have been given effect to in the accompanying pro forma balance sheet:

	Shares	Cash
Mar-Clay Mills, Inc.	160,000	
The Mailbag Group of Companies	81,390	$1,780,000
The Frommer Group of Companies	128,801	540,000*

* The cash amount is less than 10% of the total amount of the transaction.

The proposed acquisition of Mar-Clay Mills, Inc. and The Frommer Group of Companies have been accounted for as poolings of interests. The proposed acquisition of The Mailbag Group of Companies has been accounted for as a part pooling of interests (63%) to the extent of the exchange of shares and a part purchase (37%) to the extent of the cash portion of the transaction. The $1,780,000 of cash necessary to complete the Mailbag acquisition has been shown as borrowed funds in the pro forma balance sheet.

As to the pooling of interests, the accounting treatment given is to bring into the pro forma combined statements the net book value of the assets, liabilities and stockholders' equity of the proposed acquisition companies except for adjustments necessary to record the cancellation of the stock of the proposed acquisition companies at par value and the issuance of cash and shares of common stock of National Student Marketing Corporation at par value. Any difference in the relative par values and cash amount has been adjusted to additional paid-in surplus.

With respect to the portion of the proposed Mailbag transaction accounted for as a purchase, the adjustment required is to reduce the stockholders' equity accounts of Mailbag by 37% and to the extent that this value is less than the cash portion of the transaction, to record the difference ($1,653,211) as cost in excess of underlying value at date of acquisition.

Management of National Student Marketing Corporation does not intend to amortize any portion of the $1,653,211 of excess cost of investment since it is of the opinion that value of indefinite duration will accrue to the company as a result of this acquisition. At such time as the value may be considered to be declining, the Company will commence amortizing the excess cost of investment over an appropriate period of time.

(2) CONTINGENT SHARES RELATING TO PROPOSED ACQUISITIONS OTHER THAN INTERSTATE.

No effect has been given for an additional 262,500 shares of National Student Marketing common stock which will be placed in escrow with respect to the proposed acquisitions of The Frommer Group of Companies and Mar-Clay Mills, Inc. 49,000 of such additional shares may be issuable if the market value of National Student Marketing Corporation common stock fluctuates below a specified price in accordance with an agreed formula. 73,500 of such additional shares may be earned out of escrow by the former shareholder of Five-Dollars-A-Day Tours (one of the Frommer Group of Companies) if earnings from the business of said Company achieve certain incremental levels in the three years ending October 31, 1972. 140,000 of such shares may be earned out of escrow by the shareholders of Mar-Clay Mills, Inc. upon achieving certain incremental earnings levels over a four year period ending May 31, 1973. As any such shares are earned out of escrow, they will be recorded as a charge to additional paid-in capital and a credit to common stock at par value.

(3) ACCOUNTING TREATMENT—PROPOSED ACQUISITION OF INTERSTATE.

The applicable pro forma combined condensed balance sheet gives effect on a pooling of interests basis to the proposed issuance by National Student Marketing Corporation of 826,666 shares of common stock for all the outstanding preferred and common stock of Interstate National Corporation. The accounting treatment given is to bring the net book value of the assets, liabilities and stockholders' equity of Interstate into the pro forma balance sheet except for the adjustment required to cancel the preferred and common stock (net of treasury stock) of

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Government's Exhibit 25

NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

INTERSTATE NATIONAL CORPORATION AND SUBSIDIARIES

THE FROMMER GROUP OF COMPANIES, MAR-CLAY MILLS, INC., AND THE MAILBAG GROUP OF COMPANIES

NOTES TO PRO FORMA COMBINED CONDENSED BALANCE SHEETS—(Concluded)

Interstate and record the issuance of National Student Marketing Corporation common stock at par value, the net difference in carrying values being adjusted to additional paid-in capital.

(4) CONTINGENT SHARES RELATING TO THE PROPOSED INTERSTATE ACQUISITION.

In the event the market price of National Student Marketing Corporation common stock is less than $45 per share during a prescribed period prior to the effective date of the merger agreement, the number of shares of National Student Marketing Corporation to be issued will increase proportionately. The maximum number of shares that may be issued at the effective date of the agreement is 942,000.

The merger agreement also provides for the issuance of additional shares of National Student Marketing Corporation stock subsequent to the effective date of the merger if the market value of National Student Marketing Corporation's stock prior to or at the time of the first registration of a portion of the shares issued as of the effective date of this merger agreement is less than the market value at the effective date of the merger agreement. The maximum aggregate number of shares that may be issued in connection with this proposed merger agreement is 1,000,000.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

THE STOCKHOLDERS AND BOARD OF DIRECTORS
NATIONAL STUDENT MARKETING CORPORATION:

We have examined the consolidated balance sheet of National Student Marketing Corporation and subsidiaries as of August 31, 1968 and the related statements of earnings, retained earnings and additional paid-in capital for the three years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The consolidated financial statements of National Student Marketing Corporation and its then owned subsidiaries for the two years ended August 31, 1967 and the financial statements of Watsnu and Impressions (see note 2), which are included in the consolidated financial statements, were examined by other independent public accountants whose reports have been furnished to us.

In our opinion, based upon our examination and the aforementioned reports of other independent public accountants, the accompanying consolidated balance sheet and statements of consolidated earnings, retained earnings and additional paid-in capital present fairly the financial position of National Student Marketing Corporation and subsidiaries as of August 31, 1968 and the results of their operations for the three years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

We have checked, as to compilation only, the pro forma financial statements of National Student Marketing Corporation and subsidiaries combined with all of the proposed acquisition companies and combined with all of the proposed acquisition companies other than Interstate National Corporation and Subsidaries, and in our opinion, such pro forma statements, together with the introduction and notes thereto, except for the pro forma adjustment, and insofar as they are based on audited figures resulting from our examination and from the reports of other accountants, have been properly compiled on the basis therein described.

Peat, Marwick, Mitchell & Co.

PEAT, MARWICK, MITCHELL & CO.

Washington, D. C.
November 14, 1968 except as to notes 1, 2 and 8
as to which the date is April 24, 1969

TO NATIONAL STUDENT MARKETING CORPORATION:

We have examined the consolidated statements of income (loss) of NATIONAL STUDENT MARKETING CORPORATION (a District of Columbia Corporation) and subsidiaries for the two years ended August 31, 1967. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements of income referred to above, (not set forth separately herein) present fairly the results of operations of National Student Marketing Corporation and subsidiaries for the two years ended August 31, 1967, in conformity with generally accepted accounting principles consistently applied during these periods.

Arthur Andersen & Co.

ARTHUR ANDERSEN & CO.

Washington, D. C.
January 23, 1968.

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Government's Exhibit 25

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Stockholders of
WATSNU SPORTSWEAR, INC.
IMPRESSIONS BY M INC.

We have examined the Combined Statement of Financial Position of Watsnu Sportswear, Inc. and Impressions by M Inc. at December 31, 1968 and December 31, 1967 and the Combined Statement of Income and Retained Earnings for the years then ended. Our examination of Watsnu Sportswear, Inc. was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We did not audit the records of Impressions by M Inc., but relied on the Financial Statements of Impressions by M Inc., which statements were examined by other certified public accountants whose report thereon has been furnished to us. Accordingly, our opinion expressed herein, insofar as it relates to the amounts included for Impressions by M Inc. is based solely upon such report.

In our opinion, the Combined Statements of Financial Position and Combined Statements of Income and Retained Earnings together with the notes to the Combined Financial Statements not shown separately herein present fairly the Combined Financial Position of Watsnu Sportswear, Inc. and Impressions by M Inc. at December 31, 1968 and December 31, 1967 and the combined results of their operations for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis.

DRUCKMAN & HILL
Certified Public Accountants
Druckman & Hill

New York, New York
April 24, 1969

Board of Directors
IMPRESSIONS BY M. INC.

Gentlemen:

We have examined the balance sheet of Impressions by M. Inc. as of December 31, 1968 and the related income statement for the period August 15, 1968 (the commencement of operations) to December 31, 1968. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet as of December 31, 1968 and the related income statement for the period August 15, 1968 to December 31, 1968 present fairly the financial position of Impressions by M. Inc. at December 31, 1968 and the results of its operations for the period then ended, in conformity with generally accepted accounting principles consistently applied throughout the period.

Margolin, Winer & Evans

MARGOLIN, WINER AND ~~EVANS~~
EVANS

Garden City, New York
April 8, 1969

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Government's Exhibit 25

NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

	August 31, 1968	May 31, 1969 (unaudited)
Current assets:		
Cash	$ 375,082	$ 1,172,107
Marketable securities, at cost which approximates market	23,122	23,122
Receivables (notes 3 and 6):		
Trade, net of allowance for doubtful accounts of $63,574 and $86,531, respectively	1,509,491	3,222,271
Current installment of long-term receivable	22,003	189,953
Unbilled receivables and accrued costs and estimated earnings on contracts in progress (note 3)	1,015,230	1,934,109
Other	77,172	480,866
Total receivables	2,623,896	5,827,199
Inventories, at lower of cost (first-in, first-out) or market (note 4)	1,253,788	3,170,603
Deferred costs (note 5):		
Foreign study programs	—	1,592,969
Prepared sales programs and promotional items	486,651	778,617
Unamortized list acquisition costs	198,819	259,383
Total deferred costs	685,470	2,630,969
Prepaid expenses	435,800	291,954
Total current assets	5,397,158	13,115,954
Notes due from officers	13,775	13,775
6% note receivable, less current portion	88,011	88,011
Investment in and advances to non-consolidated subsidiary (note 1)	11,960	25,947
Property, plant and equipment, at cost (notes 6 and 9):		
Land	22,800	47,000
Building	41,912	112,800
Machinery and equipment	166,165	970,416
Automotive equipment	142,679	189,208
Furniture and fixtures	209,011	570,584
Leasehold improvements	34,267	226,253
	616,834	2,116,261
Less accumulated depreciation and amortization	167,133	648,704
Net property, plant and equipment	449,701	1,467,557
Cost of investment in subsidiaries in excess of underlying value of net assets at date of acquisition (note 1)	—	8,013,124
Other assets (note 10)	472,858	984,278
	$6,433,463	$23,708,646

See accompanying notes to consolidated financial statements.

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Government's Exhibit 25

NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

LIABILITIES AND STOCKHOLDERS' EQUITY

	August 31, 1968	May 31, 1969 (Unaudited)
Current liabilities:		
Notes payable (note 6):		
Bank	$ 510,600	$ 4,584,833
Other	66,870	26,548
	577,470	4,611,381
Current installments of long-term debt (note 6)	27,443	40,182
Accounts payable	1,415,090	2,053,873
Customer deposits	—	1,573,893
Accrued costs on contracts in progress	529,291	1,122,682
Accrued expenses	290,755	349,821
Unearned income	73,462	18,319
Federal and Canadian income taxes	355,758	559,507
Deferred Federal income taxes (notes 3 and 5)	208,338	134,879
Total current liabilities	3,477,607	10,464,537
Deferred Federal income taxes (notes 3 and 5)	55,000	97,424
Long-term debt, less current installments (note 6)	48,189	3,599,393
Notes payable to officers	8,538	—
Minority stockholders' equity in subsidiaries	—	18,826
Stockholders' equity (notes 2, 7 and 8):		
Common stock, par value $.025 per share. Authorized 3,000,000 shares; issued 2,867,760 shares; 2,896,555 shares at May 31, 1969	71,694	72,414
Additional paid-in capital	1,688,679	7,869,865
Retained earnings	1,101,839	1,598,076
	2,862,212	9,540,355
Less cost of treasury stock (65,167 and 7,001 shares respectively)	18,083	11,889
Net stockholders' equity	2,844,129	9,528,466
Commitments (note 11)		
	$6,433,463	$23,708,646

See accompanying notes to consolidated financial statements.

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Government's Exhibit 25

NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended August 31,			Nine months ended May 31, 1969
	1966	1967	1968	(unaudited)
Balance at beginning of period as previously reported	$ (4,584)	$ (9,154)	$ 55,944	$1,101,839
Transfer to common stock in connection with 54,700 for 1 stock split (note 8)	—	—	(24,600)	—
Retained earnings (deficit) arising from acquisitions recorded as poolings of interests (note 2)	(62,464)	17,595	314,140	—
Balance at beginning of period, restated	(67,048)	8,441	345,484	1,101,839
Add—Net earnings for period	75,549	385,635	773,152	702,270
	8,501	394,076	1,118,636	1,804,109
Deduct:				
Dividends	—	20,000	—	—
Dividends paid by pooled company prior to date of pooling	60	—	105	—
Transfer to common stock in connection with 54,700 for 1 stock split (note 8)	—	24,600	—	—
Net earnings of pooled companies duplicated in two periods in the consolidated statement of earnings	—	3,992	16,692	206,033
	60	48,592	16,797	206,033
Balance at end of period	$ 8,441	$345,484	$1,101,839	$1,598,076

See accompanying notes to consolidated financial statements.

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NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ADDITIONAL PAID-IN CAPITAL

	Year ended August 31,			Nine months ended May 31,
	1966	1967	1968	1969 (unaudited)
Balance at beginning of period, as previously reported	$ 750	$ 750	$ 1,750	$1,688,679
Transfer to capital stock in connection with 54,700 for 1 stock split (note 8)	—	—	(1,750)	—
Additional paid-in capital arising from acquisitions recorded as poolings of interests (note 2)	—	263,775	369,674	—
Balance at beginning of period, as restated	750	264,525	369,674	1,688,679
Add:				
Excess of par value of common stock of companies acquired in transactions accounted for as poolings of interests over the par value of common stock issued therefor	263,775	105,899	—	1,512
Excess of market value over par value of common stock issued to companies under purchase agreements (note 2)	—	—	—	681,013
Transfer from common stock in connection with pooling of subsidiary	—	1,000	—	—
Excess of net proceeds from sale of common stock over par value thereof	—	—	1,182,600	5,833,909
Excess of market value over par value of common stock issued to acquire trademark	—	—	210,780	—
Excess of market value over par value of common stock issued to employees	—	—	23,137	—
Donation of common stock by stockholder (note 8)	—	—	3,933	—
	264,525	371,424	1,790,124	8,205,113
Deduct:				
Transfer to common stock in connection with 54,700 for 1 stock split (note 8)	—	1,750	—	—
Expenses in connection with mergers	—	—	101,445	335,248
	—	1,750	101,445	335,248
Balance at end of period	$264,525	$369,674	$1,688,679	$7,869,865

See accompanying notes to consolidated financial statements.

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NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited as to May 31, 1969)

(1) BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the company and all subsidiaries. All material intercompany accounts and transactions have been eliminated. The accounts of the company's Canadian subsidiary, Collegiate Advertising, Ltd. have been converted at appropriate U. S. dollar equivalents. Collegiate formed a subsidiary in May 1968 which was not yet operative as of August 31, 1968, and the investment therein was therefore carried at cost at that date. The accounts of this subsidiary are included in the May 31, 1969 consolidated financial statements.

The company formed a subsidiary, International Student Marketing Corporation, in September 1968. This subsidiary had not commenced operations as of May 31, 1969 and the investment therein is carried at cost at this date.

As described in note 2, certain acquisitions have been included in the accompanying financial statements in accordance with the pooling of interests concept of accounting. Accordingly, operations of these acquired subsidiaries are included in the accompanying consolidated financial statements as explained in note A to the consolidated statement of earnings.

The company's cost of investment in subsidiaries exceeded its underlying equity in their net assets by $7,661,052 as of May 31, 1969 (unaudited).

This difference is accounted for as follows:

	May 31, 1969 (unaudited)
Cost of investment in subsidiaries in excess of underlying value of net assets at date of acquisition	$8,013,124
Undistributed earnings of subsidiaries from dates of acquisition	352,072
	$7,661,052

(2) BUSINESS ACQUIRED:

The following businesses which have been acquired by the company have been accounted for as poolings of interests (wherever shares are indicated they have been adjusted where appropriate to reflect the 2 for 1 stock split authorized by the stockholders on December 16, 1968):

(a) Compujob, Inc., was acquired on August 22, 1968 by issuance of 4,000 shares of the company's stock in exchange for all the outstanding stock of Compujob, Inc. Additional shares of the company's common stock will be issued to the former stockholders of Compujob, Inc. for five consecutive fiscal years commencing with the fiscal year ending August 31, 1969, determined annually by dividing 25 percent of the net earnings before taxes of Compujob, Inc., by the average market price of the company's common stock during the preceding month of February.

(b) On January 22, 1968 the company acquired Collegiate Advertising, Ltd. by the issuance of 260,000 shares of common stock in exchange for all the outstanding stock of Collegiate.

(c) New England Subscription Service, Inc. was acquired on January 9, 1968 by the issuance of 13,334 shares of the company's common stock in exchange for all outstanding shares of the acquired company.

(d) The company issued 120,000 shares of its common stock on July 25, 1968 in exchange for all the outstanding stock of Shaffer Enterprises, Inc.

(e) On October 9, 1968 the company issued 30,000 shares of common stock in exchange for all the outstanding stock of Lewis Brothers Ceramics, Inc. and subsidiaries. Additional shares of the company's common stock are to be issued in 1969 and 1970 to the former stockholders of Lewis Brothers to the extent of 10 percent of the net earnings of the acquired company in excess of $33,000 for each year. The value of the shares to be issued for the purpose of this calculation will be based on the average closing bid price of the company's common stock for eighty trading days ending November 15 of each year.

(f) The company issued 21,000 shares of common stock on November 13, 1968 in exchange for all the outstanding stock of Institutional Directories, Inc.

(g) The company issued 66,000 shares of its common stock on December 18, 1968 in exchange for all the outstanding stock of National Scholastic List Co., Inc.

(h) On February 6, 1969 the company acquired all the outstanding stock of New England Travel Corporation in exchange for 600,000 shares of its common stock, of which 280,000 shares are held in escrow. The escrow shares will be issued during each of the five fiscal years ending October 31, 1973 in amounts equal to twelve times net earnings of the acquired company divided by $30. Any shares remaining in escrow after October 31, 1973 will be returned to the company for cancellation.

Government's Exhibit 25

NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(i) The company issued 72,698 shares of its common stock on April 23, 1969 in exchange for all the outstanding stock of Renselaar Corporation. Additional shares of common stock will be issued to the former stockholders of Renselaar Corporation in 1969 in amounts equal to ten times net earnings divided by the average price of the company's stock for the thirty days prior to issuance, and for the three years ended August 31, 1972 in amounts equal to ten times the greater of the excess of net earnings over $175,000 or the net earnings of the preceding twelve months divided by the average price of the company's stock for the thirty days prior to issuance. The excess net earnings used in the above computations may not exceed $300,000 in the aggregate.

(j) Impressions By M, Inc. was acquired on April 24, 1969 by the issuance of 297,000 shares of the company's stock in exchange for all the outstanding stock of the acquired company. An additional 297,000 shares of common stock will be placed in escrow upon becoming available from increased authorized shares and will be issued to the former stockholders of the acquired company in each of the years from 1969 through 1972 in amounts equal to twenty times net earnings of the subsidiary divided by $25, provided that prior to the application of any earnings to the above calculations there shall have first been earned an aggregate of $575,000. Any shares remaining in escrow after December 31, 1972 will be returned to the company for cancellation.

(k) On February 12, 1969 the company issued 40,000 shares of its common stock in exchange for all the outstanding stock of Consultants for Marketing Isolation, Inc.

In addition to the acquisitions described above, the company acquired the following businesses in transactions accounted for as purchases:

(l) The company acquired, on September 17, 1968, 96.2 percent of the outstanding capital stock of National Manpower Register, Inc. and notes receivable in the amount of $70,000. In payment thereof the company issued two 7% promissory notes in the amount of $112,500 each payable September 17, 1969 and 1970, and 2,560 shares of its authorized unissued common stock.

(m) On February 1, 1969 the company purchased all the outstanding capital stock of The Colad Company, Inc. for $1,950,000 and 15,715 shares of its common stock.

(n) On March 1, 1969 the company purchased the net assets of Guest Pac Corporation for $6,000,000, of which $3,000,000 is represented by two 4% promissory notes of $1,500,000 each due on September 1, 1970 and 1971.

(3) CONTRACTS IN PROGRESS:

During the year 1968 the company's volume of business on fixed fee type arrangements increased substantially. This business involves employees of the company developing over-all marketing and/or advertising programs for clients and/or prospective clients. The major portion of the work done by the company involves determination of the client's requirements and proposal by the company of an over-all program. Costs related to development of the programs are charged to expenses as incurred. The eventual implementation of the agreed-upon program is carried out principally by representatives and third parties, generally on a fixed commission or charge per piece basis. Owing to the nature of this activity, management believes that income is best matched against costs directly connected with the production of this income by recording the estimated gross profit based on the percentage of time incurred to the total estimated time to be incurred by the employees in development of the over-all program for the client. Accordingly, commencing in 1968 all such programs have been accounted for on this basis upon obtaining a client commitment.

For tax purposes the company considers income on these contracts to be earned when billed and accounts for the applicable deferred taxes in its accounts and financial statements.

(4) INVENTORIES:

Inventories used in the computation of cost of sales were as follows:

	Total	Finished goods	Work in process	Raw materials and supplies
August 31, 1965	$ 81,805	$ 23,655	$ 7,907	$ 50,243
August 31, 1966	84,004	8,780	10,351	56,256
August 31, 1967	420,889	273,657	8,780	138,452
August 31, 1968	1,253,788	628,831	13,111	611,846
May 31, 1969 (unaudited)	$3,170,603	$2,142,518	$188,916	$839,169

Inventories are priced at the lower of cost or market with cost determined on the first-in, first-out basis.

(5) Deferred Costs:

Due to the nature of certain aspects of its business the company has adopted the following policies relating to deferred costs:

(a) Foreign study programs:

The operations of New England Travel Corporation (a wholly-owned subsidiary described elsewhere in the Proxy Statement) involve arrangements by the company of study programs abroad during the summer months for high school students. Results of operations are accounted for during the summer months as the study programs are completed and the students return to the United States. Consequently, all costs are deferred during the first

nine months of the year. As a result, the unaudited nine month figures in the consolidated statement of earnings exclude any operations of New England Travel Corporation.

(b) Unamortized cost of prepared sales programs:

The company's prepared sales program business is seasonal and coincides with the school year. Expenditures are incurred for printing, layout, and mailing preparatory to the commencement of various sales programs, most of which begin in the fall of the year and carry over to the spring.

The company follows the practice of deferring these costs and amortizing them over the periods in which applicable income is derived. The amortization periods commence with the various sales campaigns and costs are written off over the lives of the programs or a maximum of twelve months, whichever period is less.

(c) Unamortized list acquisition costs:

The company's name list acquisition costs are deferred at the time of acquisition and amortized over a period of approximately thirty months beginning in the year of acquisition. That portion of unamortized list acquisition costs at the balance sheet date, which will be amortized during the succeeding year, has been classified as a current asset.

For income tax purposes the company deducts the costs described in (b) and (c) above as incurred and accounts for the applicable deferred taxes in its accounts and financial statements.

(6) NOTES PAYABLE AND LONG-TERM DEBT:

Notes payable and long-term debt at August 31, 1968 and May 31, 1969 are summarized as follows:

	August 31, 1968	May 31, 1969 (unaudited)
Unsecured notes payable to bank, with various interest rates from 6½% to 8¾% due at various dates to May 31, 1970	$428,870	$4,218,505
4% notes payable secured by common stock of subsidiary company, payable in annual installments on September 1, 1970 and 1971	—	3,000,000
Notes payable to bank, secured by trade accounts receivable in amount of $5,000	4,600	—
Instaliment notes, secured by automotive equipment, payable in monthly installments	10,600	2,744
7% note payable to bank, secured by the master list of names of Shaffer Enterprises, Inc., payable $3,000 per month to March 1970	57,000	47,000
7% note payable to bank, secured by machinery and equipment, payable in monthly installments to July 31, 1970	19,464	2,387
7% note payable to bank, secured by machinery and equipment, payable in monthly installments to February 26, 1971	5,021	9,560
Conditional sales contract payable in monthly installments to June 1973	3,784	3,056
12% unsecured notes payable on demand	23,000	—
7% unsecured note payable on September 17, 1969	—	112,500
7% unsecured note payable on September 17, 1970	—	112,500
7¾% notes payable to bank secured by trade accounts receivable in the amount of $339,000, due on demand	85,000	100,000
9% note payable to bank, secured by inventory, payable in monthly installments to December 31, 1969	—	180,376
6% installment notes secured by automotive equipment, payable in monthly installments to May 1971	14,058	16,725
4½% installment notes secured by machinery and equipment, payable in monthly installments to January 1972	1,705	—
7% unsecured note payable in semi-annual installments of $20,000 commencing September 1, 1970	—	400,000
6% mortgage note payable in monthly installments of $388.59, including interest with final payment due January 10, 1974	—	18,935
Non-interest bearing note secured by a building, payable in monthly installments to February 1973	—	26,667
	653,102	8,250,956
Amounts due within one year	604,913	4,651,563
Balance due after one year	$ 48,189	$3,599,393

The aggregate maturities due in each of the years 1970 through 1973 on debt outstanding as of May 31, 1969 are approximately $4,656,153, $1,702,590, $1,557,507, $51,956 and $40,388, respectively.

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NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(7) STOCK OPTIONS:

Under the terms of a qualified stock option plan, 236,000 shares of common stock have been authorized for issuance to employees. The options, granted at fair market value on date of grant, expire five years from the date of issuance and may not be exercised prior to two years from such date. Options dated from February 29, 1968 to March 26, 1969 have been granted to employees to purchase shares of common stock at prices ranging from $6 per share to $30 per share. The total value of options granted aggregates $4,422,228.

In connection with the acquisition of New England Subscriptions Service, Inc. the company granted options to purchase 5,000 shares of common stock at $6 per share. The options are exercisable at any time and expire January 1, 1972.

The company makes no accounting entry upon issuance of stock options. Upon exercise of a stock option, the par value of the stock issued is credited to common stock and the excess of the option price over par value is credited to additional paid-in capital.

(8) COMMON STOCK AND RETAINED EARNINGS:

The company is committed to issue common stock in connection with business acquisitions, stock option plans, and other agreements as described in notes 2 and 7.

In April 1968 the company registered 200,000 shares of its common stock with the Securities and Exchange Commission. In connection with the registration, effective January 2, 1968, the authorized capital stock was increased to 1,500,000 shares of common stock and the ten shares of $100 par value common stock outstanding was split into 547,000 shares of $.05 par value common stock. Concurrently therewith, $24,600 was transferred from retained earnings and $1,750 was transferred from additional paid-in capital to capital stock. Subsequent thereto, a stockholder donated 78,667 shares of Common Stock to the company which was accounted for as donated treasury shares at par value ($3,933).

Subsequently, at the annual stockholders' meeting on December 16, 1968, the stockholders authorized a 2 for 1 stock split. The stock split is reflected in the accompanying consolidated financial statements for all periods.

In connection with certain of the acquisitions described in note 2, the company borrowed 240,000 shares of common stock from its principal stockholder. As described elsewhere in this proxy statement, the shares of common stock will be replaced when the authorized, but unissued, common stock has been increased. The financial statements reflect 2,896,555 shares of common stock outstanding at May 31, 1969 which does not include the 240,000 borrowed shares, however, such shares are included in the computations of earnings per share.

On May 12, 1969 the company sold by private placement 118,500 shares of its authorized and unissued common stock for $3,417,570. Capital stock was credited for $2,963 and $3,414,607 was credited to additional paid-in capital.

In accordance with the laws of the District of Columbia, approximately $463,000 of retained earnings arising from acquisitions recorded as poolings of interests are restricted as to payment of dividends.

(9) DEPRECIATION AND AMORTIZATION:

Depreciation and amortization have been computed by the straight-line and various accelerated methods over the following estimated useful lives:

Building	40 years
Machinery and equipment	3-10 years
Automotive equipment	3- 5 years
Furniture and fixtures	3-10 years
Leasehold improvements	6 years

Maintenance and repairs are charged to expense when incurred. Betterments and renewals are charged to the asset accounts, which are relieved of the items renewed or replaced. Upon retirement or disposal of assets the cost and accumulated depreciation are eliminated from the asset and the accumulated depreciation accounts, and the related gain or loss is credited or charged to income.

(10) OTHER ASSETS:

Other assets are summarized as follows:

	August 31, 1968	May 31, 1969 (unaudited)
Unamortized list acquisition cost	$117,496	$187,354
Deferred marketing expense	—	174,214
Trademark	210,960	210,960
Miscellaneous	144,402	411,750
	$472,858	$984,278

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NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Concluded)

(11) COMMITMENTS:

The activities of the company are conducted in leased facilities. The major leases expire in 1970, 1971, 1973 and 1975, requiring approximate monthly rentals of $2,148, $3,000, $11,520, and $2,500, respectively.

(12) SUPPLEMENTARY PROFIT AND LOSS INFORMATION:

	Charged directly to profit and loss	Charged to other accounts(1)	Total
Year ended August 31, 1966:			
Maintenance and repairs	$ 6,446	—	$ 6,446
Depreciation and amortization	28,371	—	28,371
Taxes, other than income taxes:			
Payroll taxes	17,747	—	17,747
Other	4,472	—	4,472
Total taxes	22,219	—	22,219
Rents and royalties	35,542	—	35,542
Year ended August 31, 1967:			
Maintenance and repairs	8,249	1,027	9,266
Depreciation and amortization	47,085	97	47,182
Taxes, other than income taxes:			
Payroll taxes	46,737	—	46,737
Other	8,765	3,091	11,856
Total taxes	55,502	3,091	58,593
Rents and royalties	66,921	5,668	72,589
Year ended August 31, 1968:			
Maintenance and repairs	16,808	2,571	19,379
Depreciation and amortization	108,412	1,634	110,046
Taxes, other than income taxes:			
Payroll taxes	75,952	—	75,952
Other	8,326	4,704	13,030
Total taxes	84,278	4,704	88,982
Rents and royalties	$130,520	$42,564	$173,084
Nine months ended May 31, 1969 (unaudited):			
Maintenance and repairs	50,180	1,627	51,807
Depreciation and amortization	138,511	1,501	140,012
Taxes, other than income taxes:			
Payroll taxes	131,497	4,136	135,633
Other	25,666	—	25,666
Total taxes	157,163	4,136	161,299
Rents and royalties	$325,560	$39,887	$365,447

There were no charges for management and service contract fees.

(1) Charged to unamortized list acquisition costs.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
INTERSTATE NATIONAL CORPORATION:

We have examined the individual and consolidated balance sheets of Interstate National Corporation and subsidiaries as of December 31, 1968 and the related statements of income and earned surplus, before pro forma adjustments, for the three years then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We did not examine the financial statements of Interstate Fire & Casualty Company and subsidiaries for the two years ended December 31, 1967, which statements were examined by other independent accountants whose report is included herein.

In our opinion, based on our examination and the aforementioned report of other independent accountants, such individual and consolidated financial statements before pro forma adjustments present fairly the financial position of Interstate National Corporation and subsidiaries at December 31, 1968 and the results of their operations for the three years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

PEAT, MARWICK, MITCHELL & CO.

Chicago, Illinois
August 13, 1969

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INTERSTATE NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31, 1968	June 30, 1969 (unaudited)
Assets:		
Bonds (note 1)	$22,353,531	$23,397,686
Stocks, other than subsidiaries (note 1):		
Preferred	1,517,100	1,380,225
Common	2,521,003	2,342,690
Stock of affiliated insurance company, on equity basis (note 1)	1,125,479	1,144,456
Land and buildings, at cost less accumulated depreciation	169,646	167,219
Cash	2,871,085	1,716,169
Premiums receivable	4,374,815	6,609,693
Receivable from reinsurers	2,679,620	2,135,057
Accrued investment income	256,136	296,208
Prepaid expense	1,710,489	1,916,706
Furniture, equipment and leasehold improvements, at cost less allowance for depreciation and amortization of $713,229 in 1968 and $728,781 in 1969	342,365	349,540
Deferred Federal income taxes	86,000	64,000
Other assets	637,222	842,288
	$40,644,494	$42,361,940

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:		
Losses	$13,762,123	$14,565,588
Loss adjustment expenses	2,854,300	2,909,465
Unearned premiums	5,080,974	5,826,898
Ceded reinsurance payable	2,227,017	2,197,416
Funds held under reinsurance treaties	1,896,375	1,977,837
Premiums payable to underwriters	4,312,706	4,470,778
Federal income taxes (note 2)	64,000	67,000
Liability for employment agreements	464,186	528,876
Other liabilities	1,565,363	1,006,422
Total liabilities	32,227,044	33,550,281
Stockholders' equity:		
Preferred stock, no par value. Authorized 1,000,000:		
Series A convertible, $20 stated value. Issued and outstanding 27,000 shares. Convertible into 20 fully paid shares of common stock on January 1, 1973	$ 540,000	$ 540,000
Common stock, $1 par value. Authorized 2,000,000 shares; issued 700,000 shares	700,000	700,000
Total capital stock	1,240,000	1,240,000
Paid-in surplus	4,805,244	4,805,244
Earned surplus	2,444,690	2,845,608
Total surplus	7,249,934	7,650,852
Total capital stock and surplus	8,489,934	8,890,852
Treasury shares, common shares at cost: 9,420, 1968: 10,607, 1969	72,485	79,194
Stockholders' equity	8,417,449	8,811,658
	$40,644,494	$42,361,940

See accompanying notes to consolidated financial statements.

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Government's Exhibit 25

INTERSTATE NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNED SURPLUS

	Year ended December 31,			Six months ended June 30,
	1966	1967	1968	1969 (unaudited)
Net income and realized gain on investments per consolidated statement of income before pro forma adjustment	$ 339,137	$ 221,433	$ 505,421	$1,036,101
Less net gain for the three months ended December 31, 1968 included above	—	—	—	714,299
Net income and realized gain on investments for the six months ended June 30, 1969	—	—	—	321,802
Unrealized appreciation (depreciation) from revaluation of investments	(158,826)	(23,400)	280,980	(525,964)
Increase in mandatory securities valuation reserve	(888)	(1,465)	(6,615)	(2,693)
Manager's compensation applicable to unrealized (appreciation) depreciation from revaluation of investments	24,308	3,510	(42,147)	11,554
Cash dividends to stockholders	(120,152)	—	(71,354)	(108,162)
Stock dividends to stockholders	—	(123,102)	—	—
Other	—	2,264	—	—
Elimination of deferred liabilities (note 6)	—	—	—	704,381
Increase (decrease) in surplus	83,579	79,240	666,286	400,918
Balance at beginning of period	1,615,585	1,699,164	1,778,404	2,444,690
Balance at end of period	$1,699,164	$1,778,404	$2,444,690	$2,845,608

See accompanying notes to consolidated financial statements.

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Government's Exhibit 25

INTERSTATE NATIONAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) CONSOLIDATING AND ACCOUNTING PRINCIPLES:

The consolidated financial statements include the accounts of Interstate National Corporation (INC) and its subsidiaries, Interstate Fire & Casualty Company (IFC) and Geo. F. Brown & Sons, Inc. (GFB) and their subsidiaries. INC was incorporated in 1968 and acquired IFC and GFB in 1969. The accounts of the companies are reflected on a pooling of interests basis.

During the period covered by the consolidated financial statements, GFB maintained its accounts on a modified cash basis for the fiscal period ended October 31 of each year. The GFB statements have been recast to a calendar year to conform with the practice followed by INC and have been adjusted to the accrual basis of accounting.

The investments of IFC are valued in accordance with the requirements of the National Association of Insurance Commissioners as follows: eligible bonds at amortized values; capital stock of affiliated life insurance company at pro rata share of capital and surplus; and all other bonds and stocks at market prices in accordance with the method prescribed by the Association.

Failure of the items to add to the totals shown is due to dropping of amounts less than $1.

(2) FEDERAL INCOME TAXES:

The company intends to file a consolidated tax return with its subsidiaries for the year 1969, except that GFB will be included from date of acquisition, May 31, 1969.

(3) PENSION AND RETIREMENT PLAN OF BROWN:

GFB has established a funded retirement plan designated as "Geo. F. Brown & Sons, Inc. Employees' Retirement Plan" for eligible officers and employees. Contributions to the plan are calculated on the basis of 20% of net income and such additional amounts as the Board of Directors authorize.

It is the present intention of the company that the contributions will be not less than 7½% of eligible employees salaries.

Contributions made by the company were:

Year ended December 31:	
1966	$254,166
1967	278,389
1968	279,879
Nine months ended June 30, 1969	138,854

(4) EXPENSES:

No allowance has been made for expenses which INC would have incurred if it had been in existence for the five years ended December 31, 1968 and the nine months ended June 30, 1968 and 1969. In the opinion of management such expenses would not be material.

(5) SUBSEQUENT EVENT:

In June 1969 the company announced its intention to merge with National Student Marketing Corporation (National). Under the terms of the proposed merger, National will acquire INC for shares of its stock.

(6) ELIMINATION OF DEFERRED LIABILITIES:

The management contract, whereby GFB acted as the sole manager for IFC, was cancelled on May 31, 1969. As a result, liabilities accrued prior to January 1, 1964 for manager's compensation applicable to equity in unearned premiums and to unrealized appreciation from revaluation of investments were eliminated since they are no longer required.

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INTERSTATE NATIONAL CORPORATION
(Parent Company)

BALANCE SHEET

ASSETS

	December 31, 1968	June 30, 1969 (unaudited)
Current assets:		
Cash	$ —	$ 6,409
Short-term investments	—	390,744
Accrued interest receivable	—	2,255
Total current assets	—	399,410
Investment in subsidiaries:		
Interstate Fire & Casualty Company, at adjusted equity	7,952,862	8,181,726
Geo. F. Brown & Sons, Inc., at equity	464,587	224,822
Organization expenses	—	6,193
	$8,417,449	$8,812,150

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ —	$ 492
Stockholders' equity:		
Preferred stock, no par value. Authorized 1,000,000:		
Series A convertible, $20 stated value. Issued and outstanding 27,000 shares. Convertible into 20 fully paid shares of common stock on January 1, 1973	$ 540,000	$ 540,000
Common stock, $1 par value. Authorized 2,000,000 shares; issued and outstanding 700,000 shares	700,000	700,000
Surplus paid in excess of par or stated value	4,805,244	4,805,244
Earned surplus:		
Earned surplus of Parent	—	419,229
Undistributed surplus of subsidiary companies:		
Earned surplus	2,367,640	2,875,293
Unrealized appreciation (depreciation) of investments	77,050	(448,914)
Total earned surplus	2,444,690	2,845,608
Total capital and surplus	8,489,934	8,890,852
Treasury shares, common shares at cost 9,420, 1968; 10,607, 1969	72,485	79,194
Stockholders' equity	8,417 449	8,811,658
	$8,417,449	$8,812,150

See accompanying notes to financial statements.

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Government's Exhibit 25

INTERSTATE NATIONAL CORPORATION
(Parent Company)

STATEMENT OF INCOME

	Year ended December 31,					Nine months ended June 30,	
	1964 (unaudited)	1965 (unaudited)	1966	1967	1968	1968 (unaudited)	1969 (unaudited)
Interest income	$ —	$ —	$ —	$ —	$ —	$ —	$ 2,255
Dividend income	210,000	227,500	120,760	—	72,060	19,560	545,562
Operating expenses	—	—	—	—	—	—	(20,526)
Net income before equity in net income and net realized gain on sale of investments of subsidiaries	210,000	227,500	120,760	—	72,060	19,560	527,391
Equity in undistributed income (loss) of subsidiaries after deducting dividends paid	(226,080)	(227,796)	205,221	178,736	305,874	12,863	390,788
Equity in net realized gain on sale of investments of subsidiaries	482,593	233,195	13,156	42,697	127,487	40,683	117,922
Net income and equity in net income and gain on sale of investments of subsidiaries	$466,513	$232,899	$339,137	$221,433	$505,421	$73,106	$1,036,101

See accompanying notes to financial statements.

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Government's Exhibit 25

INTERSTATE NATIONAL CORPORATION
(Parent Company)

STATEMENT OF EARNED SURPLUS

	Year ended December 31,			Six months ended June 30,
	1966	1967	1968	1969
				(unaudited)
Net income and net realized gain on sale of investments	$ 339,137	$ 221,433	$ 505,421	$1,036,101
Less net gain for the three months ended December 31, 1968 included above	—	—	—	714,299
Net income and realized gain on investments for the six months ended June 30, 1969	—	—	—	321,802
Unrealized appreciation (depreciation) from revaluation of investments	(158,826)	(23,400)	280,980	(525,964)
Dividends:				
Cash	(120,152)	—	(71,354)	(108,162)
Stock	—	(123,102)	—	—
Other	23,420	4,309	(48,762)	713,242
Net increase in surplus	83,579	79,240	666,285	400,918
Balance at beginning of period	1,615,585	1,699,164	1,778,404	2,444,690
Balance at end of period	$1,699,164	$1,778,404	$2,444,690	$2,845,608

See accompanying notes to financial statements.

E 228

Government's Exhibit 25

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
INTERSTATE FIRE & CASUALTY COMPANY:

We have examined the statutory consolidated balance sheet of Interstate Fire & Casualty Company and its subsidiaries (Interstate Insurance Group) as of December 31, 1968, the related statements of consolidated earnings and surplus, and consolidated adjusted income for the year then ended, and the statement of consolidated adjusted stockholders' equity (included in note 10 to the financial statements) as of December 31, 1968. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statutory consolidated financial statements present fairly the statutory financial position of Interstate Fire & Casualty Company and its subsidiaries at December 31, 1968 and the income and changes in surplus for the year then ended, in conformity with insurance accounting principles prescribed or permitted under statutory authority applied on a basis consistent with that of the preceding year. Also, in our opinion, the statements of consolidated adjusted stockholders' equity and consolidated adjusted income present fairly the stockholders' equity at December 31, 1968 and the income for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

PEAT, MARWICK, MITCHELL & CO.

Chicago, Illinois
March 14, 1969

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Government's Exhibit 25

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders
INTERSTATE FIRE & CASUALTY COMPANY:

We have examined the consolidated statement of admitted assets, liabilities and surplus as regards policyholders of Interstate Fire & Casualty Company and its susbidiaries at December 31, 1967 and the related consolidated statements of income and surplus unassigned for the four years then ended, together with the related statement of adjusted income. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

These financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Insurance Department of the State of Illinois, which are designed primarily to demonstrate ability to meet claims of policyholders. These practices differ in certain respects, which in some instances are material, from those generally accepted accounting principles applied in the presentation of financial position and results of operations on the "going-concern" basis commonly followed by other types of enterprises. The more significant of these practices and the effect on net income of the application of generally accepted accounting principles are summarized in the statement of adjusted income.

In our opinion, the summary of earnings and consolidated statement of surplus included in this proxy statement, insofar as it relates to Interstate Fire & Casualty Company and its subsidiaries for the four years ended December 31, 1967, present fairly the data shown therein and changes in surplus in conformity with accounting practices prescribed or permitted by the Insurance Department of the State of Illinois consistently applied. Also in our opinion, the statement of adjusted income for the four years ended December 31, 1967 presents fairly the results of operations of Interstate Fire & Casualty Company and its subsidiaries in conformity with generally accepted accounting principles consistently applied.

Price Waterhouse & Co.

PRICE WATERHOUSE & CO.

Chicago, Illinois
March 8, 1968

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Government's Exhibit 25

INTERSTATE FIRE & CASUALTY COMPANY AND SUBSIDIARIES
(Interstate Insurance Group—Subsidiaries of Interstate National Corporation)

CONSOLIDATED BALANCE SHEET

ADMITTED ASSETS	December 31, 1968	June 30, 1969 (unaudited)
Bonds (notes 3 and 4):		
United States Government and agencies	$ 6,445,592	$ 4,661,506
Other	15,907,939	17,943,436
Stocks, other than stocks of subsidiary companies (notes 3 and 4):		
Preferred	1,517,100	1,380,226
Common	2,513,984	2,342,689
Stock of Interstate Life Assurance Company, at equity in net assets (notes 3 and 4)	1,125,479	1,140,915
Real estate (note 5)	169,646	167,219
Cash and cash items	1,547,280	1,083,770
Agents' balances and premiums in course of collection	1,340,998	3,208,200
Due from other insurance companies	2,492,620	2,135,057
Interest and rents due and accrued	256,136	293,953
Other assets	41,414	6,846
Total admitted assets	$33,358,188	$34,363,817

LIABILITIES, CAPITAL STOCK AND SURPLUS		
Losses and claims (note 6)	$13,762,123	$14,565,588
Loss adjustment expenses	2,854,300	2,909,465
Unearned premiums (note 7)	5,080,974	5,826,898
Taxes, other than Federal and foreign income taxes, and other expenses due and accrued	276,842	93,000
Ceded reinsurance premiums payable	2,227,017	2,197,416
Funds held by company under reinsurance treaties	1,896,375	1,977,837
Other liabilities	481,511	649,817
Total liabilities	26,579,142	28,220,021
Capital stock and surplus:		
Common stock, $5 par value. Authorized 1,000,000 shares; issued 350,000	1,750,000	1,750,000
Paid-in surplus	4,166,744	4,166,744
Surplus (note 9)	862,302	227,052
Total capital stock and surplus	6,779,046	6,143,796
Total liabilities, capital stock and surplus	$33,358,188	$34,363,817

See accompanying notes to consolidated financial statements.

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Government's Exhibit 25

INTERSTATE FIRE & CASUALTY COMPANY AND SUBSIDIARIES
(Interstate Insurance Group—Subsidiaries of Interstate National Corporation)

CONSOLIDATED STATEMENT OF SURPLUS

	Year ended December 31,			Six months ended June 30,
	1966	1967	1968	1969 (unaudited)
Net income (loss) and realized gain or loss on investments per consolidated summary of earnings	$(34,170)	$135,844	$ 844,132	$872,862
Less net income for the three months ended December 31, 1968 included above				544,200
Net income and net realized gain or loss on investments for the six months ended June 30, 1969				328,662
Unrealized gain (loss) from revaluation of investments (note 3):				
Fire and Casualty Companies:				
Other than consolidated subsidiaries	(162,037)	(23,400)	280,980	(525,964)
Life company	3,211	—	—	—
Change in non-admitted assets	(49,661)	(242,570)	95,974	2,245
Change in reserves arising from contracts with unauthorized reinsurance companies	15,042	22,344	—	—
Change in excess of statutory and voluntary reserves over case basis reserves	104,888	—	—	—
Change in mandatory securities valuation reserve	(888)	(1,465)	(6,615)	(2,693)
Dividend to stockholders:				
Cash (1966, $0.30; 1968, $0.15; 1969, $1.25)	(105,000)	—	(52,500)	(437,500)
Stock	—	(123,102)	—	—
Increase (decrease) in surplus	(228,615)	(232,349)	1,161,971	(635,250)
Balance at beginning of period	161,295	(67,320)	(299,669)	862,302
Balance at end of period	$(67,320)	$(299,669)	$ 862,302	$227,052

See accompanying notes to consolidated financial statements.

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Government's Exhibit 25

INTERSTATE FIRE & CASUALTY COMPANY AND SUBSIDIARIES
(Interstate Insurance Group—Subsidiaries of Interstate National Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION:

(a) The following companies are included in the consolidated financial statements:
Interstate Fire & Casualty Company
Chicago Insurance Company
Interstate Reinsurance Corporation

These companies are referred to as Interstate Insurance Group.

(b) The accompanying financial statements have been prepared on the basis of the requirements for reporting in the Annual Statements, filed with the Insurance Department of the State of Illinois, except for modifications to comply with the requirements of Regulations S-X issued by Securities and Exchange Commission.

(c) Insurance accounting requirements differ from generally accepted accounting principles in that: (a) expenses incurred upon issuing policies are charged to expense in the year incurred rather than amortized over the periods benefited; (b) security investments are carried at National Association of Insurance Commissioners' prescribed values which may differ from market values (see note 3); (c) unrealized appreciation on investments is credited directly to surplus without giving recognition to Federal income taxes, if any, that would accrue if such appreciation were realized by sale or maturity of the investments; and (d) assets must be included in the statement of assets and liabilities at "admitted asset value" and "non-admitted assets" must be excluded.

The effects of these variations on the surplus and the net income of the companies are reflected in the consolidated statements of adjusted income and adjusted stockholders' equity appearing elsewhere herein.

(d) The assets in the accompanying consolidated balance sheets are stated at admitted asset value. The term "admitted asset value" means the asset value at which the respective assets are permitted to be reported to the Insurance Department of the State of Illinois, for balance sheet purposes in the Annual Statement in accordance with the rules and regulations of such regulatory authority. The term "non-admitted assets" means assets other than assets which are so permitted to be reported.

(e) Failure of items to add to the totals shown is due to dropping of amounts less than $1.

(2) NON-ADMITTED ASSETS:

Assets which have been excluded from the consolidated balance sheets are as follows:

	December 31, 1968	June 30, 1969
Agents' balances and premiums in course of collection over three months due	$229,950	$227,555
Furniture and equipment	5,152	5,302
Other	3,332	3,332
Total non-admitted assets	$238,434	$236,189

(3) BONDS AND STOCKS:

(a) Bonds qualified for such treatment are included in the consolidated balance sheets at December 31, 1968 and June 30, 1969 at their amortized values, and all other bonds and stocks, except capital stock of an unconsolidated company, are valued at market prices in accordance with the method prescribed by the National Association of Insurance Commissioners. Capital stock of an unconsolidated company is carried at its pro rata share of capital and surplus at December 31, 1968 and June 30, 1969 determined on the basis of requirements of the Insurance Department of the State of Illinois. The consolidated and affiliated unconsolidated insurance companies, the percent of ownership, and their carrying values are as follows:

Consolidated and affiliated unconsolidated insurance companies	December 31, 1968	June 30, 1969	% of ownership	Directly owned by
Interstate Fire & Casualty Company:				
Chicago Insurance Company	$1,773,175	$1,754,300	60%	Interstate Fire & Casualty Company
Interstate Reinsurance Corporation	1,483,839	1,435,446	100%	Interstate Fire & Casualty Company
	$3,257,014	$3,189,746		
Interstate Life Assurance Company(1)	$ 450,192	$ 456,366	40%	Interstate Fire & Casualty Company
Interstate Reinsurance Corporation:				
Chicago Insurance Company	$1,182,117	$1,169,533	40%	Interstate Reinsurance Corporation
Interstate Life Assurance Company(1)	$ 675,287	$ 684,549	60%	Interstate Reinsurance Corporation

(1) Affiliated unconsolidated insurance company.

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Government's Exhibit 25

INTERSTATE FIRE & CASUALTY COMPANY AND SUBSIDIARIES
(Interstate Insurance Group—Subsidiaries of Interstate National Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(b) The equity in statutory earnings of the affiliated unconsolidated insurance company is shown below:

Year ended December 31,			Nine months ended June 30,
1966	1967	1968	1969
$36,771	$31,147	$32,641	$24,485

(c) Cash dividends were received from affiliated unconsolidated insurance company as follows:

Year ended December 31,			Nine months ended June 30,
1966	1967	1968	1969
—	—	$100,000	—

(d) Net realized gain or loss on investments reflected in the consolidated statement of income is determined on the basis of book value of investments, which is amortized cost for bonds and cost for stocks.

(e) The change in each period in the valuation between investments at book value and investments valued as set forth in paragraph 3(a) is carried to surplus as unrealized gain or loss from revaluation of investments. In accordance with rules of the Insurance Department of the State of Illinois, no provision is made for the income tax that would be payable if the securities were liquidated at the value indicated.

(f) Interstate and its consolidated subsidiaries had on deposit with various state regulatory agencies and other insurance companies bonds with a total amortized value of $2,377,649 at December 31, 1968 and $2,621,208 at June 30, 1969.

(4) BOOK VALUES OF BONDS AND STOCKS:

The book values of bonds and stocks are:

	December 31, 1968	June 30, 1969
Bonds	$22,353,531	$22,604,942
Stocks:		
Preferred	1,790,803	1,825,718
Common	2,163,256	2,346,136
Stock of Interstate Life Assurance Company	1,100,000	1,100,000
Total stocks	$ 5,054,059	$ 5,271,854

(5) REAL ESTATE:

(a) Real estate consists of:

	December 31, 1968		June 30, 1969	
	Admitted asset value(1)	Actual cost	Admitted asset value(1)	Actual cost
Office property, St. Petersburg, Florida	$ 21,213	$ 23,485	$ 21,213	$ 23,485
Branch office, St. Petersburg, Florida	148,433	152,639	146,006	152,639
Total	$169,646	$176,124	$167,219	$176,124

(1) The book value is the same as the admitted asset value; the market value is also considered to be equal to the admitted asset value.

(b) Proper charges have been made against income with respect to depreciation.

(6) LOSSES AND CLAIMS:

The net reserve for unpaid losses and claims is based upon (1) the accumulation of case estimates for losses reported prior to the close of the accounting period in respect to direct business of the companies, (2) estimates received from ceding reinsurers, (3) estimates of unreported losses based on past experience, and (4) the deduction of amounts for reinsurance placed with reinsurers other than affiliated companies in the amount of $6,973,688 and $6,157,233 at December 31, 1968 and June 30, 1969, respectively.

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Government's Exhibit 25

INTERSTATE FIRE & CASUALTY COMPANY AND SUBSIDIARIES
(Interstate Insurance Group—Subsidiaries of Interstate National Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(7) UNEARNED PREMIUMS:

Unearned premiums are computed on the monthly pro rata basis and are stated after deduction on account of reinsurance placed with insurers other than affiliated companies in the amount of $2,418,978 and $2,659,941 at December 31, 1968 and June 30, 1969, respectively.

(8) FEDERAL INCOME TAXES:

The Interstate Insurance Group has filed consolidated tax returns for taxable years 1961 and subsequent. There have been consolidated tax losses for the years 1964 through 1967; consequently, no tax provision was required for those periods. Taxable income on a statutory basis for the year ended December 31, 1968 and the nine months ended June 30, 1969 was applied against the unused tax loss from prior years. At December 31, 1968 approximately $1,700,000 of unused tax loss arising from 1967 and prior years is available as a carryforward against future taxable income.

(9) CONSOLIDATED SURPLUS:

The consolidated surplus, shown below, for the Interstate Insurance Group is the result of consolidating the surplus of Interstate Fire & Casualty Company since inception with the surplus changes of Chicago Insurance Company and Interstate Reinsurance Corporation since their inception.

	December 31, 1968	June 30, 1969
Net income and realized gains or losses on investments	$ 2,427,471	$ 2,756,133
Cash dividends paid	(1,232,876)	(1,670,376)
Stock dividends paid	(145,602)	(145,602)
	1,048,993	940,155
Unrealized net gain (loss) on investments	77,024	(448,940)
Non-admitted assets	(238,434)	(236,189)
Other	(25,281)	(27,974)
	$ 862,302	$ 227,052

(10) CONSOLIDATED ADJUSTED STOCKHOLDERS' EQUITY:

The consolidated "adjusted stockholders' equity" for the Interstate Insurance Group as calculated in the following table, represents the difference between the admitted assets and the liabilities of the companies on the basis required by the Insurance Department of the State of Illinois, with the following exceptions: (a) there has been included as an asset the unearned premium reserve equity calculated at the rate of 32.5%; (b) the net depreciated value of furniture and equipment has been included as an asset; (c) the estimated net realizable amount of agents' balances and premiums in course of collection over three months due have been included as an asset; and (d) the consolidated "adjusted stockholders' equity" is not a representation that the realizable value of the net assets or the market or liquidating value of the capital stock of the company would be equal to or bear any relation to the figures shown.

	December 31, 1968	June 30, 1969
Stockholders' equity—statutory	$ 6,779,046	$ 6,143,796
Equity in unearned premiums	1,651,317	1,893,741
Deferred liability related to equity in unearned premiums (note 11)	(704,381)	—
Premiums in course of collection over 90 days due, estimated to be collectible	229,950	227,555
Manager's compensation applicable to unrealized appreciation from revaluation of investments	(11,554)	—
Furniture and equipment	5,152	5,302
Other	3,332	3,332
Stockholders' equity before provision for Federal income taxes	7,952,862	8,273,726
Provision for Federal income taxes in equity in unearned premiums	—	92,000
Stockholders' equity—adjusted	$ 7,952,862	$ 8,181,726

NOTE: The net operating loss carryover from prior years was utilized in computing the taxes on the equity in unearned premiums (see note 8).

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Government's Exhibit 25

INTERSTATE FIRE & CASUALTY COMPANY AND SUBSIDIARIES
(Interstate Insurance Group—Subsidiaries of Interstate National Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Concluded)

(11) MANAGEMENT CONTRACT—GEO. F. BROWN & SONS, INC.

As of January 29, 1952 a management contract was entered into with Geo. F. Brown & Sons, Inc. (GFB) whereby GFB became the sole manager of the companies as defined in the contract. As manager, GFB performs various administrative services for which it is reimbursed. In addition to the reimbursement of expenses, the contract provides for the manager to share in the underwriting and investment profits.

This contract was cancelled on May 31, 1969 which eliminated the liabilities accrued prior to January 1, 1964 for the manager's compensation applicable to equity in unearned premiums and to unrealized appreciation from revaluation of investments since they are no longer considered necessary.

(12) INTERSTATE FIRE & CASUALTY CO. AND SUBSIDIARIES became a wholly-owned subsidiary of Interstate National Corporation on January 1, 1969 through an exchange of stock.

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Government's Exhibit 25

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
GEO. F. BROWN & SONS, INC.:

We have examined the consolidated balance sheet of Geo. F. Brown & Sons, Inc. and subsidiaries as of December 31, 1968 and the related consolidated statements of income and earned surplus, before pro forma adjustments, for the three years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements before pro forma adjustments present fairly the consolidated financial position of Geo. F. Brown & Sons, Inc. and subsidiaries at December 31, 1968 and the results of their operations for the three years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

PEAT, MARWICK, MITCHELL & CO.

Chicago, Illinois
August 13, 1969

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Government's Exhibit 25

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Government's Exhibit 25

GEO. F. BROWN & SONS, INC. AND SUBSIDIARIES

(Subsidiaries of Interstate National Corporation)

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31, 1968	June 30, 1969 (unaudited)
Current assets:		
Cash	$1,323,805	$ 625,990
Short-term investments, at cost which approximates market	—	402,000
Receivables:		
Premiums due from brokers, less allowance for doubtful accounts of $24,610, 1968; $28,525, 1969	2,803,867	3,173,938
Losses advanced to insurance underwriters	390,752	471,765
Due from affiliated insurance companies	386,352	129,021
Other receivables	383,056	350,792
Prepaid insurance and expenses	59,172	22,965
Total current assets	5,347,007	5,176,473
Investments, at cost:		
Interstate National Corporation (market value, $91,256, 1968; $171,879, 1969)	72,485	65,075
Other	7,019	3,540
Furniture, equipment and leasehold improvements, at cost less allowance for depreciation and amortization of $713,258, 1968 and $728,781, 1969	337,213	344,238
Deferred Federal income taxes	86,000	156,000
Other assets	5,666	3,851
	$5,855,392	$5,749,179

See accompanying notes to consolidated financial statements.

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Government's Exhibit 25

GEO. F. BROWN & SONS, INC. AND SUBSIDIARIES

(Subsidiaries of Interstate National Corporation)

CONSOLIDATED BALANCE SHEET

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 1968	June 30, 1969 (unaudited)
Current liabilities:		
Accounts payable:		
Premiums due to insurance companies	$4,312,706	$4,470,778
Other	10,086	12,342
Accrued liabilities:		
Employee bonuses	27,364	121,112
Retirement trust (note 7)	29,102	15,978
Premium taxes	117,001	73,759
Federal income taxes (note 5)	64,000	67,000
Other	293,872	169,434
Total current liabilities	4,854,134	4,930,405
Liability for employment agreements (note 3)	464,186	528,876
	5,318,320	5,459,281
Stockholders' equity:		
Preferred stock, 6% noncumulative, par value $100, redeemable at $100:		
Authorized—5,000 shares		
Issued—1,035 shares		
Outstanding—985 shares	103,500	103,500
Common stock, par value $10:		
Authorized—20,000 shares		
Issued—2,500 shares		
Outstanding—2,000 shares	25,000	25,000
Earned surplus	476,721	229,547
Total capital stock and surplus	605,221	358,047
Treasury shares, at cost (50 shares of preferred and 500 shares of common)	68,149	68,149
Stockholders' equity	537,072	289,897
	$5,855,392	$5,749,179

See accompanying notes to consolidated financial statements.

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Government's Exhibit 25

GEO. F. BROWN & SONS, INC. AND SUBSIDIARIES

(Subsidiaries of Interstate National Corporation)

CONSOLIDATED STATEMENT OF EARNED SURPLUS

	Year ended December 31,			Six Months ended June 30,
	1966	1967	1968	1969 (unaudited)
Net income (loss) before pro forma adjustment per consolidated statement of income	$ 87,121	$ (7,135)	$ 35,377	$ 159,869
Less net income for the three months ended December 31, 1968 included above				298,880
Net loss for the six months ended June 30, 1969				(139,011)
Dividends to stockholders:				
Preferred stock (1966 and 1968, $6; 1969, $22)	(5,910)		(5,910)	(22,162)
Common stock (1966, $5; 1968, $7; 1969, $43)	(9,850)		(13,650)	(86,000)
Net increase (decrease) in surplus	71,361	(7,135)	15,817	247,173
Surplus at beginning of the period	396,679	468,040	460,904	476,721
Surplus at end of the period	$468,040	$460,904	$476,721	$ 229,547

See accompanying notes to consolidated financial statements.

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Government's Exhibit 25

GEO. F. BROWN & SONS, INC. AND SUBSIDIARIES

(Subsidiaries of Interstate National Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION:

During the period covered by the consolidated statement of income, the accounts were maintained on a modified cash basis of accounting for fiscal years ended October 31. The statements have been recast to a calendar year and have been adjusted to the accrual basis of accounting.

The company has consistently followed the practice of consolidating the financial statements of its subsidiaries which are all wholly-owned. Intercompany transactions are eliminated in consolidation.

Failure of items to add to the totals shown is due to dropping of amounts less than $1.

(2) MANAGEMENT CONTRACT—Interstate Fire & Casualty Company and Subsidiaries:

As of January 29, 1952 a management contract was entered into with IFC and subsidiaries whereby the company became the sole manager, as defined in the contract, of the group. As manager, the company performs various administrative services for which it is reimbursed according to the contract.

In addition to the reimbursement of expenses, the contract provides for the company to share in the underwriting and investment profits.

This contract was cancelled on May 31, 1969; however the company continues to be generally responsible for most aspects of the group's business other than the investment of its assets.

(3) EMPLOYMENT AGREEMENTS:

Under terms of employment agreements with nine company executives, two of whom are retired, the company has agreed that in the event of permanent disability, death or retirement such executives or their respective beneficiaries shall be entitled to receive monthly amounts as defined in the individual agreements.

The liability as shown in the accompanying balance sheets represents the amortized portion of the estimated present value (including interest thereon) of current and future amounts payable under the various agreements. The liability is being amortized over a ten-year period. The unamortized prior service liability at December 31, 1968 and June 30, 1969 was $945,714 and $878,324, respectively.

The costs applicable to the employment agreements charged to operations were:

Year ended December 31:	
1966	$ 64,832
1967	188,493
1968	188,222
Nine months ended June 30, 1969	141,025

(4) SETTLEMENT WITH FOREIGN REINSURERS:

Net payments of $187,500 in 1966 and $41,066 in 1967 were charged against income representing the company's share of interim settlements between IFC (see note 2) and certain of its foreign reinsurers.

Late in 1967 a final settlement was reached between IFC and these reinsurers. The amount paid to the company during the nine months ended June 30, 1968 as its share of the settlement (net of expenses) was $48,752.

(5) FEDERAL INCOME TAXES:

The company's Federal income tax returns have been examined by the Internal Revenue Service through the fiscal year ended October 31, 1967.

Since 1964, the company has been filing a consolidated tax return with its subsidiaries.

(6) CONTINGENT LIABILITIES AND COMMITMENTS:

The company and its subsidiaries lease offices at various locations under agreements expiring in 1969 through 1977. Aggregate annual rentals under these agreements are expected to approximate $339,000 in 1969.

In 1969, the Company leased electronic data processing equipment for five years at an annual rental of approximately $140,000. The lease is cancellable after one year.

(7) RETIREMENT TRUST:

The company has established a funded retirement plan designated as "Geo. F. Brown & Sons, Inc. Employees' Retirement Plan" for eligible officers and employees. Contributions to the plan are calculated on the basis of 20% of net income and such additional amounts as the Board of Directors authorize.

It is the present intention of the company that the contributions will be not less than 7½% of eligible employees salaries.

Contributions made by the company were:

Year ended December 31:	
1966	$254,166
1967	278,389
1968	279,879
Nine months ended June 30, 1969	138,854

(8) BONUSES:

Bonuses have been paid to certain of its officers in amounts determined by an agreement. These bonuses (but not other employees) were discontinued on October 31, 1968. The amount of bonuses charged to operations for the years ended December 31, 1964, 1965, 1966, 1967 and 1968 and nine months ended June 30, 1968 and 1969 were $294,891, $271,540, $271,120, $289,711, $278,984, $246,579 and $27,898, respectively.

(9) SUPPLEMENTARY INFORMATION TO CONSOLIDATED STATEMENT OF INCOME:

The following items of expense have been charged to operating expenses during the three years and nine months ended June 30, 1969:

	Year ended December 31,			Nine months ended June 30,
	1966	1967	1968	1969
Maintenance and repairs	$ 36,873	$ 47,122	$ 14,014	$ 40,367
Depreciation and amortization of furniture, equipment and improvements	$138,479	$108,743	$ 68,067	$ 45,524
Taxes other than Federal income taxes:				
Payroll	$107,228	$125,831	$137,299	$112,935
Other	$ 12,792	$ 20,744	$ 8,772	$ 5,061
Rents	$317,598	$328,479	$366,631	$280,826

Generally, depreciation or amortization is computed on the straight line basis over a period of up to ten years for furniture, data processing equipment and automobiles and over the life of the lease for leasehold improvements.

(10) GENERAL:

Geo. F. Brown & Sons, Inc. became a wholly-owned subsidiary of Interstate National Corporation on May 31, 1969 through an exchange of stock.

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OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
FIVE-DOLLAR-A-DAY TOURS, INC.:

We have examined the balance sheet of Five-Dollar-a-Day Tours Inc. as of October 31, 1968 and the related statements of earnings and retained earnings for the three years then ended (as restated in accordance with note 1 to the financial statements). Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion the abovementioned financial statements present fairly the financial position of the Company at October 31, 1968 and the results of its operations for the three years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Haskins & Sells

HASKINS & SELLS

Rochester, New York
May 21, 1969

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Government's Exhibit 25

THE FROMMER GROUP OF COMPANIES

COMBINED BALANCE SHEET

ASSETS

	October 31, 1968	December 31, 1968		May 31, 1969
	Five Dollar-a-Day Tours, Inc. (audited)	Other Frommer Companies	Combined (unaudited)	Frommer Group of Companies combined
Current assets:				
Cash	$197,172	$ 18,413	$ 215,585	$ 191,136
Certificates of deposit	153,600	—	153,600	802,123
Loan receivable	—	2,500	2,500	23,583
Accounts receivable, less allowance for cancellations—Five-Dollar-A-Day-Tours, Inc. of $15,600 ($108,000 at May 31, 1969)	275,248	161,310	436,558	1,271,046
Other receivables	25,008	4,809	29,817	26,523
Marketable securities, at cost (quoted market value of $3,700)	5,594	—	5,594	5,594
Prepaid expenses:				
Hotels, sightseeing, etc.	79,867	—	79,867	13,048
Rent	27,610	—	27,610	21,068
Other	1,663	429	2,092	—
Total prepaid expenses	109,140	429	109,569	34,116
Inventories of publications	—	134,572	134,572	96,384
Other current assets	—	7,800	7,800	8,766
Total current assets	765,762	329,833	1,095,595	2,459,271
Investments, at cost (note 5)	4,282	945	5,227	31,458
Property, at cost (note 3):				
Furniture and fixtures	44,273	10,259	54,532	69,943
Leasehold improvements	13,896	973	14,869	21,694
	58,169	11,232	69,401	91,637
Less accumulated depreciation and amortization	16,350	5,515	21,865	28,900
Net property	41,819	5,717	47,536	62,737
Investment in and advances to foreign subsidiaries (note 2)	20,000	—	20,000	108,520
	$831,863	$336,495	$1,168,358	$2,661,986

See accompanying notes to combined financial statements.

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Government's Exhibit 25

THE FROMMER GROUP OF COMPANIES

COMBINED BALANCE SHEET

LIABILITIES AND STOCKHOLDERS' EQUITY

	October 31, 1968	December 31, 1968		May 31, 1969
	Five Dollar-a-Day Tours, Inc. (audited)	Other Frommer Companies	Combined (unaudited)	Frommer Group of Companies combined
Current liabilities:				
Notes payable	$ —	$ 14,019	$ 14,019	$ 45,113
Accounts payable and accrued direct cost of tours	655,886	196,313	852,199	2,105,210
Accrued payroll	4,030	—	4,030	—
Accrued payroll taxes	3,698	—	3,698	7,858
Accrued taxes on income	50,725	5,621	56,346	102,007
Accrued profit-sharing plan contribution	4,740	—	4,740	—
Tenant deposits	5,267	—	5,267	5,267
Total current liabilities	724,346	215,953	940,299	2,265,455
Stockholders' equity:				
Capital stock, no par value. Authorized 200 shares; issued 100 shares	100	—	100	100
Capital stock of other Frommer Companies	—	3,551	3,551	3,551
Retained earnings	107,417	116,991	224,408	392,880
Total stockholders' equity	107,517	120,542	228,059	396,531
	$831,863	$336,495	$1,168,358	$2,661,986

See accompanying notes to combined financial statements.

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Government's Exhibit 25

THE FROMMER GROUP OF COMPANIES

COMBINED STATEMENT OF RETAINED EARNINGS

	1966			1967			1968			
	(audited)	(unaudited)		(audited)	(unaudited)		(audited)	(unaudited)		(unaudited)
	Five Dollar-a-Day Tours, Inc.	Other Frommer Companies	Combined	Five Dollar-a-Day Tours, Inc.	Other Frommer Companies	Combined	Five Dollar-a-Day Tours, Inc.	Other Frommer Companies	Combined	Nine Months ended May 31, 1969
Balance at beginning of period:										
As previously reported	$23,619	$20,792	$44,411	$36,800	$ 47,909	$ 84,709	$ 55,396	$103,584	$158,980	$224,408
Adjustment to prior years earnings due to change in accounting method (note 1)	—	—	—	1,443	—	1,443	4,806	—	4,806	—
Balance at beginning of period as restated	$23,619	$20,792	$44,411	$38,243	$ 47,909	$ 86,152	60,202	103,584	163,786	224,408
Add:										
Net earnings for period	14,624	27,117	41,741	21,959	55,675	77,634	47,215	13,407	60,622	105,638
Loss from operations duplicated in two periods	—	—	—	—	—	—	—	—	—	62,834
Balance at end of period	$38,243	47,909	86,152	60,202	103,584	163,786	107,417	116,991	224,408	392,880

See accompanying notes to combined financial statements.

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Government's Exhibit 25

THE FROMMER GROUP OF COMPANIES

NOTES TO FINANCIAL STATEMENTS

October 31, 1968 and May 31, 1969 (unaudited)

NOTES PERTAINING TO FIVE DOLLARS-A-DAY TOURS, INC.:

(1) Effective with the year ended October 31, 1968 the company changed its method of recognizing revenue from tour bookings. It is the company's policy to prepare a customer invoice when all arrangements for a tour have been made and the required customer deposit has been received. In prior years such invoices were included in revenue as of the departure date of the tour. Under the revised method, invoices are included in revenue as of the date they are prepared and sent to the customer. In connection with this revised method, the company accrues the estimated direct costs, such as hotel, sight-seeing, etc., related to the tours that have not yet departed.

Statements of earnings of the three years ended October 31, 1968 have been restated to effect this change, with a corresponding increase in net earnings of approximately $1,400, $3,400 and $12,000 respectively.

(2) At October 31, 1968 the company entered into an agreement to purchase 50% of the common stock of a Netherlands corporation for $40,000, of which $20,000 had been invested at that time and the remaining $20,000 was invested in December 1968. Under the terms of the agreement, the stock is subject to certain restrictions as to its resale. The company and the other 50% owner are contingently liable as guarantors for approximately $150,000 of bank loans of the Netherlands corporation. Subsequent to October 31, 1968 the company purchased all the outstanding stock of two other foreign subsidiaries. The net earnings of these companies since date of purchase to May 31, 1969 are insignificant and are not included in the accompanying financial statements.

(3) Depreciation of furniture and equipment is computed on the declining-balance method. Amortization of leasehold improvements is based on the life of the lease.

(4) The 1968 Federal income tax has been reduced by investment credit of $4,528 allowed on purchases of furniture and equipment made during that year.

(5) The company occupies space under terms of leases expiring in 1978 requiring annual payment of $27,700 as of October 31, 1968 and $59,100 as of May 31, 1969 over the remaining term of the lease. The company also leases space under terms of leases expiring in 1971 requiring payment of $93,931 over the remaining term of the leases. The company subleases this latter space for the same periods as the original leases and for essentially the same amounts. Investments having an original cost of $4,282 are held by the landlord as a security deposit, in accordance with the terms of one of the leases.

(6) The company has a profit-sharing plan which provides retirement income benefits to substantially all full-time employees who have at least one year of service as of November 1st of each year beginning in 1967. The expense of this plan was $4,740 for 1968 and $3,900 for the nine months ended May 31, 1969.

NOTES PERTAINING TO FIVE DOLLARS-A-DAY TOURS, INC. AND OTHER FROMMER COMPANIES:

(7) SUPPLEMENTAL PROFIT AND LOSS INFORMATION:

	Five Dollar-a-Day Tours, Inc.	Other Frommer Companies (unaudited)	Combined total
1964:			
Maintenance and repairs	—	—	—
Depreciation and amortization of property	$ 1,300	$ 27	$ 1,327
Taxes other than income taxes:			
Payroll	1,332	1,144	2,476
Other	2,197	2,850	5,047
Total taxes	3,529	3,994	7,523
Rents	3,960	2,624	6,584
1965:			
Maintenance and repairs	—	—	—
Depreciation and amortization of property	3,338	469	3,807
Taxes other than income taxes:			
Payroll	4,515	1,836	6,351
Other	2,505	4,773	7,278
Total taxes	7,020	6,609	13,629
Rents	11,853	2,297	14,150

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Government's Exhibit 25

THE FROMMER GROUP OF COMPANIES

NOTES TO FINANCIAL STATEMENTS (Continued)

	Five Dollar-a-Day Tours, Inc.	Other Frommer Companies	Combined total
		(unaudited)	
1966:			
Maintenance and repairs	—	—	—
Depreciation and amortization of property	$ 3,945	$ 706	$ 4,651
Taxes other than income taxes:			
Payroll	11,755	2,685	14,440
Other	3,091	5,999	9,090
Total taxes	14,846	8,684	23,530
Rents	17,695	4,669	22,364
1967:			
Maintenance and repairs	—	—	—
Depreciation and amortization of property	2,631	1,142	3,773
Taxes other than income taxes:			
Payroll	13,759	2,582	16,341
Other	5,621	6,867	12,488
Total taxes	19,380	9,449	28,829
Rents	60,956	10,303	71,259
1968:			
Maintenance and repairs	—	—	—
Depreciation and amortization of property	7,356	2,120	9,476
Taxes other than income taxes:			
Payroll	23,408	4,615	28,023
Other	13,432	8,591	22,023
Total taxes	36,840	13,206	50,046
Rents	62,473	8,892	71,365
Nine months ended May 31, 1968 (unaudited):			
Maintenance and repairs	—	—	—
Depreciation and amortization of property	2,100	1,499	3,599
Taxes other than income taxes:			
Payroll	8,976	4,533	13,509
Other	2,296	3,639	5,935
Total taxes	11,272	8,172	19,444
Rents	33,677	4,911	38,588
Nine months ended May 31, 1969 (unaudited):			
Maintenance and repairs	—	—	—
Depreciation and amortization of property	5,600	1,430	7,030
Taxes other than income taxes:			
Payroll	15,312	4,177	19,489
Other	7,000	16,202	23,202
Total taxes	22,312	20,379	42,691
Rents	43,673	7,702	51,375

There were no management or service contract fees.

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Government's Exhibit 25

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Officers and Directors
MAR-CLAY MILLS, INC.
Milford, Delaware:

We have examined the balance sheets of Mar-Clay Mills, Inc. as at May 31, 1968 and May 31, 1969 and the statements of income (loss) and retained earnings of Mar-Clay Mills, Inc. for the two years ended May 31, 1968. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. It was not practicable for us to verify the physical inventories at May 31, 1967 and May 31, 1968 because the date of our engagement was April 1, 1969; however, we were able to satisfy ourselves that these inventories are fairly stated by means of other auditing procedures.

In our opinion, the financial statements referred to above present fairly the financial position of Mar-Clay Mills, Inc. at May 31, 1968 and May 31, 1969, and the results of its operations for the two years ended May 31, 1968, all in conformity with generally accepted accounting principles applied on a consistent basis.

LAVENTHOL KREKSTEIN HORWATH & HORWATH

Philadelphia, Pa.
July 3, 1969

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Government's Exhibit 25

MAR-CLAY MILLS, INC.

BALANCE SHEET

ASSETS

	May 31, 1968	May 31, 1969
Current assets:		
Cash	$ 159,635	$ 38,702
Accounts receivable, trade (includes $410,902 with factor at May 31, 1969)	9,862	416,773
Other receivables	—	7,206
Inventories, at lower of cost or market (note 1)	149,356	244,844
Prepaid expenses (note 2)	16,616	20,934
Total current assets	335,469	728,459
Property, plant and equipment, at cost (notes 2 and 5):		
Land	20,000	20,000
Building	285,173	290,295
Building improvements	—	27,297
Machinery and equipment	725,431	962,824
Furniture and fixtures	10,212	10,916
Automotive equipment	13,782	25,638
Construction in progress	—	1,771
	1,054,598	1,338,741
Less accumulated depreciation	262,674	352,590
	791,924	986,151
Other assets:		
Loans receivable, officers	37,103	38,020
Deferred interest	5,298	—
Deferred taxes on income	—	2,833
Deferred mortgage costs	17,003	16,688
Mortgage security deposit (note 2)	92,638	92,638
Non-operating machinery, at scrap value (note 2)	10,000	10,000
	162,042	160,179
	$1,289,435	$1,874,789

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)

Current liabilities:		
Advances from factor (note 1)	$ 71,739	$ —
Current portion of long-term debt (note 2)	71,778	161,418
Accounts payable, trade	65,626	88,465
Payroll and other taxes payable	4,684	5,054
Accrued payroll and other expenses	27,848	49,479
Federal and state taxes on income	900	53,247
Total current liabilities	242,575	357,663
Long term debt, less current portion (note 2)	1,056,031	1,108,190
Unamortized mortgage financing premium (note 2)	58,218	57,157
Contingent liability (note 4)		
Shareholders' equity (deficiency):		
Common stock, $100 par; authorized 2,000 shares: issued and outstanding 800 shares	80,000	80,000
Additional paid-in capital	109,085	109,085
Retained earnings (deficit)	(256,474)	162,694
	(67,389)	351,779
	$1,289,435	$1,874,789

See notes to financial statements.

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Government's Exhibit 25

MAR-CLAY MILLS, INC.

STATEMENT OF RETAINED EARNINGS

	Year ended May 31,			Nine months ended May 31,
	1966	1967	1968	1969
	(unaudited)	(audited)	(audited)	(unaudited)
Balance, (deficit), at beginning of period	$ (59,011)	$(259,618)	$(477,133)	$(256,474)
Add net income for the period, June 1 through August 31, 1968				64,819
Net income (loss) for the period	(200,607)	(217,515)	220,659	354,349
Balance retained earnings (deficit), at end of period	$(259,618)	$(477,133)	$(256,474)	$ 162,694

See notes to financial statements.

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Government's Exhibit 25

MAR-CLAY MILLS, INC.

NOTES TO FINANCIAL STATEMENTS

Years ended May 31, 1968 and 1969

(1) Inventories are pledged as collateral for advances from factor.

Inventories used in the computation of cost of sales were as follows:

	Total	Finished Goods	Work in Progress	Raw Materials and Supplies
May 31, 1964	$251,905	$94,705	$78,287	$78,913
May 31, 1965	143,293	26,780	61,365	55,148
May 31, 1966	131,419	30,340	56,788	44,291
May 31, 1967	95,208	22,523	35,304	37,381
May 31, 1968	149,356	46,646	15,980	86,730
May 31, 1969	244,844	154,047	21,774	69,023

Inventories are priced at lower of cost or market with cost determined on the first in-first out basis.

(2) Long-term debt is summarized as follows:

	Rate	Due date	May 31, 1968 Due within one year	May 31, 1968 Due after one year	May 31, 1969 Due within one year	May 31, 1969 Due after one year	Final maturity
Equipment notes(A)	6-10%	1971	$56,068	$ 212,095	$112,448	$ 315,965	1972
Mortgage(B)	3⅞-6%	1990	10,450	839,550	42,079	792,225	1990
Insurance financing note(A)	6%	1970	5,260	4,386	6,891	—	1970
			$71,778	$1,056,031	$161,418	$1,108,190	

(A) Machinery and equipment which cost $377,014 and $600,499 at May 31, 1968 and 1969, respectively, and the unexpired insurance premiums of $9,518 are pledged as collateral for the various notes payable.

(B) Collateral for the foregoing mortgage is as follows:

	May 31, 1968 Cost	May 31, 1969 Cost
Land	$ 20,000	$ 20,000
Building	285,173	290,295
Building improvements	—	27,297
Machinery and equipment	220,559	220,559
Machinery and equipment, in warehouse, at scrap value; original cost $304,043	10,000	10,000
Mortgage security deposit, interest bearing	92,638	92,638
	$628,370	$660,789

The original amount of the mortgage of $850,000 plus a financing premium of $58,218 was obtained from the proceeds of a bond issue underwritten by the Milford Industrial Development Corporation Number One on October 21, 1965. The financing premium is being amortized over the life of the mortgage.

The annual principal payments for the five years subsequent to May 31, 1969 are $42,079, $57,033, $59,770, $64,253 and $66,178.

(3) Extraordinary item: No Federal income tax was payable for the year ended May 31, 1968 due to the utilization of net operating loss carryforwards. The extraordinary item for the year ended May 31, 1969 is a result of the utilization of all available net operating loss carryforwards and investment credit carryforwards amounting to tax benefits of $132,144 and $46,844, respectively.

(4) Federal income tax returns of the company are presently being examined by Internal Revenue Service for the years ended May 31, 1966, 1967 and 1968. It is the opinion of management that the adjustments, if any, will have no material effect on the financial condition of the company.

(5) Depreciation and amortization policies: It is the policy of the company to provide for depreciation by straight-line and accelerated methods over the estimated useful lives of the respective classes of assets as follows:

Building	40 years
Machinery and equipment	10 years
Furniture and fixtures	10 years
Automotive equipment	3 to 6 years

Maintenance and repairs are charged to expense when incurred. Betterments and renewals are charged to the asset accounts, which are relieved of the items renewed or replaced. Upon retirement or disposal of assets the cost and accumulated depreciation are eliminated from the asset and the allowance for depreciation and the related gain or loss is credited or charged to income.

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Government's Exhibit 25

MAR-CLAY MILLS, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

(6) Supplementary Profit and Loss Information

	Charged Directly to Profit and Loss		
	Cost of Sales	Other Expenses	Total
Year ended May 31, 1964 (unaudited):			
Maintenance and repairs	$14,274	$ —	$14,274
Depreciation and amortization	32,720	3,425	36,185
Taxes other than income taxes:			
Payroll	11,701	1,700	13,401
Other	—	254	254
Total taxes	$11,701	$ 1,954	$13,655
Rents	$ —	$ 5,853	$ 5,853
Year ended May 31, 1965 (unaudited):			
Maintenance and repairs	$19,875	$ —	$19,875
Depreciation and amortization	42,267	3,094	45,361
Taxes other than income taxes:			
Payroll	11,387	1,800	13,187
Other	—	165	165
Total taxes	$11,387	$ 1,965	$13,352
Rents	$ —	$ 7,300	$ 7,300
Year ended May 31, 1966 (unaudited):			
Maintenance and repairs	$23,287	$ —	$23,287
Depreciation and amortization	44,484	3,191	47,675
Taxes other than income taxes:			
Payroll	10,749	1,000	11,749
Other	—	936	936
Total taxes	$10,749	$ 1,936	$12,685
Rents	$ —	$ 8,825	$ 8,825
Year ended May 31, 1967 (audited):			
Maintenance and repairs	$32,733	$ —	$32,733
Depreciation and amortization	73,858	3,204	77,062
Taxes other than income taxes:			
Payroll	18,279	2,500	20,779
Other	—	1,493	1,493
Total taxes	$18,279	$ 3,993	$22,272
Rents	$ —	$30,843	$30,843
Year ended May 31, 1968 (audited):			
Maintenance and repairs	$42,741	$ —	$42,741
Depreciation and amortization	75,119	3,996	79,115
Taxes other than income taxes:			
Payroll	27,225	4,000	31,225
Other	—	3,006	3,006
Total taxes	$27,225	$ 7,006	$34,231
Rents	$ —	$ 3,241	$ 3,241
Nine months ended May 31, 1969 (unaudited):			
Maintenance and repairs	$31,250	$ —	$31,250
Depreciation and amortization	69,362	4,723	74,085
Taxes other than income taxes:			
Payroll	6,350	9,866	16,216
Other	—	965	965
Total taxes	$ 6,350	$10,831	$17,181
Rents	—	$ 9,615	$ 9,615

There were no management or service contract fees.

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Government's Exhibit 25

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Stockholders and Boards of Directors
of the Mailbag Group of Companies
(except Dufftor Holding, Limited):

We have examined the combined balance sheet of the Mailbag Group of Companies (except Dufftor Holding, Limited) as of December 31, 1968 and the statement of earnings and retained earnings for the three years then ended. Our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned, together with the accompanying notes, present fairly the financial position of the Mailbag Group of Companies (except Dufftor Holding, Limited) at December 31, 1968 and the results of its operations for the three years then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding years.

Pustorino, Puglisi, Behan & Co.
PUSTORINO, PUGLISI, BEHAN & CO.

New York, N. Y.
August 5, 1969

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Government's Exhibit 25

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Government's Exhibit 25

MAILBAG GROUP OF COMPANIES

COMBINED BALANCE SHEET

ASSETS

	December 31, 1968			May 31, 1969
	(audited)	(unaudited)		
	Mailbag Group combined except Dufftor	Dufftor Holding Limited	Combined balance	Combined balance
Current assets:				
Cash	$137,888	728	138,616	346,296
Marketable securities, at cost which approximates market	398	—	398	398
Accounts receivable—trade, less allowance for doubtful accounts of $1,940	426,452	—	426,452	374,956
Other receivables	6,811	—	6,811	28,264
Prepaid expenses	5,990	—	5,990	19,630
Due from shareholder	—	2,565	2,565	23,261
Total current assets	577,539	3,293	580,832	792,805
Investment in non-consolidated foreign subsidiary	—	60,000	60,000	60,000
Furniture, fixtures, equipment and leasehold improvements, at cost (note 5):				
Furniture and fixtures	8,344	—	8,344	8,504
Office equipment	3,712	—	3,712	5,781
Automobile	4,841	—	4,841	4,841
Leasehold improvements	2,898	—	2,898	2,898
	19,795	—	19,795	22,024
Less accumulated depreciation and amortization	6,012	—	6,012	6,012
Net furniture, fixtures, equipment and leasehold improvements	13,783	—	13,783	16,012
Other assets:				
Cash surrender value of officers' life insurance (note 2)	10,196	—	10,196	10,196
Deposits	925	—	925	825
Miscellaneous	5,677	—	5,677	5,677
Total other assets	16,798	—	16,798	16,698
	$608,120	63,293	671,413	885,515

See accompanying notes to combined financial statements.

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Government's Exhibit 25

MAILBAG GROUP OF COMPANIES

COMBINED BALANCE SHEET

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 1968			May 31, 1969
	(audited)	(unaudited)		
	Mailbag Group combined except Dufftor	Dufftor Holding Limited	Combined balance	Combined balance
Current liabilities:				
Notes payable to bank	$ 50,000	—	50,000	—
Accounts payable—trade	212,186	—	212,186	194,713
Due to affiliated companies (Note 1)	67,841	—	67,841	—
Accrued expenses	5,000	256	5,256	176,430
Customer advances	—	—	—	21,952
Profit-sharing payable	32,644	—	32,644	—
Pension fund payable (note 3)	23,426	—	23,426	—
Federal and state income taxes (note 4)	955	—	955	149,747
Deferred Federal and state income taxes	67,077	—	67,077	—
Total current liabilities	459,129	256	459,385	542,842
Stockholders' equity:				
Preferred stock—$1 par value, 3% non-cumulative, non-voting. Authorized 40,000 shares; issued and outstanding 22,100 shares	—	—	—	22,100
Common stock	2,600	4	2,604	2,800
Additional paid-in capital	24,900	—	24,900	24,900
Retained earnings	121,491	63,033	184,524	292,873
Total stockholders' equity	148,991	63,037	212,028	342,673
Contingent liability (note 4)				
	$608,120	63,293	671,413	885,515

See accompanying notes to combined financial statements.

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MAILBAG GROUP OF COMPANIES

COMBINED STATEMENT OF RETAINED EARNINGS

	Year ended December 31,							Nine months ended May 31, 1969
		1967			1968			
	(audited) 1966	(audited)	(unaudited)		(audited)	(unaudited)		(unaudited)
	Combined (Note A)	Mailbag Group except Dufftor	Dufftor Holding Limited	Combined	Mailbag Group except Dufftor	Dufftor Holding Limited	Combined	Combined
Balance at beginning of period	$27,771	$ 44,687	—	$ 44,687	$145,182	$67,686	$212,868	$184,524
Net earnings (loss) for period	26,916	100,495	$67,686	168,181	(23,691)	(4,653)	(28,344)	155,978
	54,687	145,182	67,686	212,868	121,491	63,033	184,524	340,502
Excess of purchase price of treasury stock over capital contributed therefore	(10,000)	—	—	—	—	—	—	—
Earnings duplicated in periods shown	—	—	—	—	—	—	—	(47,629)
Balance at end of period	$44,687	$145,182	$67,686	$212,868	$121,491	$63,033	$184,524	$292,873

NOTES:

(A) Dufftor Holding, Limited organized in 1967 and included from date of incorporation.

(B) See accompanying notes to combined financial statements.

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THE MAILBAG GROUP OF COMPANIES

NOTES TO COMBINED FINANCIAL STATEMENTS

(Unaudited as to Dufftor Holding, Limited)

(1) PRESENTATION

The combined financial statements include the accounts of the following companies whose fiscal year ends on December 31, except for MII Service, Inc. whose fiscal year ends September 30.

MAILBAG INTERNATIONAL, INC.
MII SERVICES, INC.
YOUTH MARKETING, INC.
DUFFTOR HOLDING, LIMITED

(2) OFFICERS' LIFE INSURANCE

In 1967 Mailbag International Inc. insured two key officer employees for $150,000 each and had fully expensed the premium payments. In 1968 the company had capitalized the cash surrender value of these policies which amount to $10,196. The portion of this value applicable to 1967 insurance payments is $2,718.

(3) PENSION PLAN

In 1968 Mailbag International Inc. put into effect a pension plan covering substantially all of its employees. It is the company's policy to fund pension costs accrued. There were no vested benefits as of December 31, 1968. The total pension cost for the year was $23,426.

(4) CONTINGENCIES

(a) The Federal income tax returns of Mailbag International Inc. for the years 1965 and 1966 are under examination by the Internal Revenue Service. The examination is currently in progress and the Government has not formally presented its determinations to the company. It is difficult to assess at this time the issues the Government intends to drop and which it intends to pursue.

If all of the issues now being raised informally are pursued by the Government, and if they all are ultimately resolved in its favor, the result would be an assessment to the company of approximately $50,000 of additional taxes and interest for the years 1965 through 1968.

The corporation's Federal income tax return for years prior to 1965 (which included the principal items under review in the current examination) have been examined by the Internal Revenue Service and have been accepted as filed.

(b) The company is the defendant in a court action brought by Modern College Boards Schools, Incorporated in the amount of $51,300. It is the opinion of the Company's counsel that the ultimate payment under this action should not exceed $5,000. This amount, $5,000, has been reflected as accrued expenses in the current liability section of the accompanying balance sheet.

(5) PROPERTY, PLANT AND EQUIPMENT, DEPRECIATION AND AMORTIZATION

Depreciation and amortization have been computed by the straight line method over the following estimated useful lives:

Furniture and fixtures	10 years.
Office equipment	10 years.
Automotive equipment	3 years.
Leasehold improvements	106 months to April 30, 1976.

Maintenance and repairs are charged to expense when incurred. Betterments and renewals are charged to the asset accounts, which are relieved of the items renewed or replaced. Upon retirement or disposal of assets the cost and accumulated depreciation are eliminated from the asset and the allowance for depreciation and the related gain or loss is credited or charged to income.

(6) SUPPLEMENTARY PROFIT AND LOSS INFORMATION

	Year ended December 31,					Nine months ended
	1964	1965	1966	1967	1968	May 31, 1969
	(unaudited)		(audited)			(unaudited)
Maintenance and repairs	$ —	$ 234	$ 98	$ 2,893	$ 663	$ 473
Depreciation and amortization	—	475	558	2,811	4,254	2,700
Taxes other than income taxes:						
Payroll	586	2,164	2,347	4,524	5,238	5,065
Other	500	1,863	558	606	759	561
Total taxes	1,086	4,027	2,905	5,130	5,997	5,626
Rents	726	4,479	5,633	13,359	18,323	13,953
Management and service contract fees	$35,499	$70,447	$51,689	$30,417	$30,000	$42,500

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Government's Exhibit 25

SCHEDULE A

ARTICLES OF AMENDMENT

TO THE

ARTICLES OF INCORPORATION

To: The Recorder of Deeds, D. C.
Washington, D. C.

Pursuant to the provisions of Title 29-923 of the District of Columbia Code of Laws, the undersigned Corporation adopts the following Articles of Amendment to its Articles of Incorporation:

FIRST: The name of the Corporation is National Student Marketing Corporation.

SECOND: The following amendment of Article Fourth of the Articles of Incorporation, replacing the present Article Fourth in its entirety, was adopted by the shareholders of the Corporation on September , 1969 in the manner prescribed by the District of Columbia Code of Laws:

"ARTICLE FOURTH: The aggregate number of shares which the Corporation is authorized to issue is 7,500,000, $.01 par value, all of one class of Common Stock."

THIRD: The number of shares of the Corporation outstanding at the time of such adoption was , and the number of shares entitled to vote thereon was .

FOURTH: The number of shares voted for such amendment was , and the number of shares voted against such amendment was .

FIFTH: The manner in which the adjustment in par value of the issued shares shall be effected is as follows:

Each share of the Corporation's Common Stock, par value $.025 per share, issued and outstanding immediately prior to the close of business on the effective date of the Articles of Amendment amending Article Fourth shall automatically be converted into one share of Common Stock, par value $.01 per share.

Date: September , 1969

NATIONAL STUDENT MARKETING CORPORATION

By .....
Cortes W. Randell, *President*

(CORPORATE SEAL)

Attest:

.....
JOHN GLANDON DAVIES, *Secretary*

[VERIFICATION]

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SCHEDULE B

NATIONAL STUDENT MARKETING CORPORATION

Employees' Qualified Stock Option Plan (1969)

I. ESTABLISHMENT OF THE PLAN.

NATIONAL STUDENT MARKETING CORPORATION (hereinafter called "the Company") hereby establishes an Employees' Qualified Stock Option Plan (1969) (hereinafter called "the Plan") upon the terms and conditions hereinafter stated.

II. PURPOSES OF THE PLAN.

The purposes of the Plan are: (1) to provide incentives to those key employees of the Company who will promote the growth and success of the Company, by encouraging them to obtain a proprietary interest in the Company and to remain in the employ of the Company, and (2) to assist the Company in recruiting able personnel.

III. DEFINITIONS.

(a) "Capital Stock" means shares of the Common Stock ($.025 par value) of the Company.

(b) "Board" means the Board of Directors of the Company.

(c) "Committee" means the Committee of the Board constituted as provided in Article IV hereof.

(d) "Option" and "Options" mean a right or rights granted to purchase Capital Stock under the Plan.

(e) "Grantee" means an individual to whom an Option is granted under the Plan.

(f) "Subsidiary Company" means a subsidiary of the Company which meets the definition of a "subsidiary corporation" in Section 425(f) of the Internal Revenue Code. References in the Plan to "employees of the Company" include employees of a Subsidiary Company.

IV. ADMINISTRATION OF THE PLAN.

The Plan shall be administered by a Stock Option Plan Committee of three members of the Board who shall be appointed by the Board and who shall not be eligible to participate in the Plan. Two members of the Committee shall constitute a quorum for the transaction of any business which may come before the Committee. The Committee shall be responsible to the Board for the operation of the Plan and shall make recommendations, from time to time, to the Board with respect to participation in the Plan by employees of the Company and the extent of such participation. The interpretation and construction by the Committee of any provisions of the Plan or of any Option granted hereunder shall be final unless otherwise determined by the Board. No member of the Board or of the Committee shall be liable for any action or determination made by him in good faith.

V. ELIGIBILITY.

The individuals to whom Options may be granted shall be key employees of the Company (including employees who are directors or officers). No Options shall be granted to an employee of the Company who would be ineligible to receive a qualified stock option by reason of the provisions of Section 422(b)(7) of the Internal Revenue Code of 1954 (relating to stock ownership), and no Options shall be granted to any person who is not an officer or a full-time salaried employee of the Company.

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Government's Exhibit 25

VI. CAPITAL STOCK SUBJECT TO OPTION.

The aggregate number of shares of Capital Stock which may be issued pursuant to Options granted under the Plan shall not exceed 100,000 shares, which may be treasury shares or authorized but unissued shares, and which number of shares is subject to adjustment as hereinafter provided in Article X. The Board shall have full authority to direct the proper officers of the Company to issue or transfer shares of the Company's Capital Stock pursuant to the exercise of an Option granted under the Plan. If an Option as to any shares is surrendered before exercise, or shall expire or terminate for any reason without having been exercised in full, or for any other reason ceases to be exercisable, the number of unpurchased shares covered thereby shall, unless the Plan shall have been terminated, become available for the granting of Options under the Plan within the aggregate maximum stated above.

VII. DESIGNATION OF GRANTEES.

The Board, upon recommendation of the Committee, shall determine from time to time which of those eligible employees will be granted Options under the Plan and the number of shares of Capital Stock which may be purchased under each Option. In making such recommendations there shall be taken into account the duties and responsibilities of each respective individual, his present and potential contributions to the growth and success of the Company, and such other factors as the Committee shall deem relevant to accomplishing the purposes of the Plan. The Board shall not be precluded from granting an Option to any eligible individual solely because such individual may previously have been granted an Option under the Plan or under any previous stock option plan.

VIII. TERMS OF THE OPTION.

Each Option granted under the Plan shall be on the following terms and conditions:

A. *Number of Shares and Option Price.*

Each Option granted pursuant to the Plan shall state the total number of shares of Capital Stock to which it pertains. The purchase price shall be one hundred percent (100%) of the fair market value of the Capital Stock of the Company at the time such Option is granted or such higher price as the Committee may establish as to any or all shares subject to the Option.

B. *Duration of Option.*

No Option shall be exercisable after the expiration of five years from the date it is granted or such shorter period as the Committee may establish as to any or all shares subject to any Option, and, except as provided in this Paragraph, shall terminate on the date on which the Grantee ceases to be employed by the Company. If the Grantee dies while in the employ of the Company and without having exercised in full any Option, the executors or administrators or the legatees or distributees of the Grantee's estate shall have the right, during the three-month period following his death, to exercise such Option to the extent such deceased Grantee was entitled to exercise it on the date of his death but in no event shall any Option be exercisable more than five years from the date it was granted.

C. *Limitations on Exercise of Option.*

An Option may not be exercised to any extent during the two-year period commencing with the date on which it was granted. The Committee may provide for a period longer than two years before the Option may be exercised as to any or all shares of Capital Stock subject to the Option. An Option granted under the Plan may not be exercised while there is outstanding (within the meaning of Section 422(c)(2) of the Internal Revenue Code of 1954) any qualified stock option (within the meaning of Section 422(b) of the Internal Revenue Code of 1954) or any restricted stock option (within the meaning of Section 424(b) of the Internal Revenue Code of 1954) previously granted by the Company (or a predecessor corporation of the Company), to the same

Grantee, unless such outstanding qualified stock option or restricted stock option is an option to purchase stock which is of the same class as that covered by the later option, and the outstanding qualified stock option or restricted stock option is exercisable at a price which is the same as or lower than the option price of the later option.

D. *Nonassignability.*

Options shall not be transferable other than by will or by the laws of descent and distribution, and during a Grantee's lifetime shall be exercisable only by such Grantee.

E. *Payment for Shares.*

Payment in full of the purchase price for the shares purchased pursuant to the exercise of any Option shall be made upon exercise of the Option. All shares sold under the Plan shall be fully paid and nonassessable.

F. *Manner of Exercise.*

The Option may be exercised at one time or from time to time, except that each partial exercise of an Option shall be for not less than 50 shares, or for all the remaining shares thereunder, whichever is the lesser. The procedures for exercise shall be set forth in the written option certificate provided for herein.

G. *Voting and Dividend Rights.*

No Grantee of an Option shall have any voting or dividend rights or any other rights of a stockholder in respect of any shares of Capital Stock covered by an Option prior to the time that his name is recorded on the Company's stockholder ledger as the holder of record of such shares acquired pursuant to an exercise of an Option.

H. *Option to Repurchase; Right of First Refusal.*

In the event that the Grantee ceases for any reason to be an employee of the Company (including death), after such Grantee has exercised an Option to purchase all or any portion of the shares subject to the Option or in the event that the Grantee desires at any time to sell, transfer, encumber, or otherwise dispose of any shares of the Capital Stock of the Company purchased under the Plan, the Company shall have the prior right and option to repurchase such shares or any portion thereof at the stock's then current fair market value, in such manner as shall be specified in the written option certificate provided for herein. In the event that the Grantee dies while in the employ of the Company and the executors or administrators or legatees or distributees of the Grantee's estate shall exercise an Option, in accordance with the provisions of the Plan, as to all or any portion of the shares subject to an Option, the Company shall have the prior right and option to repurchase such shares or any portion thereof at the stock's then current fair market value in such manner as shall be specified in the written option certificate provided for herein.

I. *Representations and Warranties of Grantee.*

The Grantee (or the executors or administrators or legatees or distributees of the Grantee's estate) purchasing shares pursuant to the exercise of an Option granted hereunder shall be required at the time of exercise of an Option to represent to the Company in form satisfactory to counsel to the Company that he is acquiring such shares for investment purposes and not with a view to their sale or distribution.

The Grantee (or the executors or administrators or legatees or distributees of the Grantee's estate) shall be required to represent to the Company at the time of exercise of an Option that the stock purchased under this Plan shall not be assigned, transferred, pledged or hypothecated or

be subject to execution, attachment or similar process so as to intertere with the rights of the Company to repurchase such stock as provided in Paragraph II of Article VIII and in the written option certificate provided for herein.

The proper officers of the Company shall execute and deliver written option certificates which shall contain such provisions as expressly provided herein and such additional provisions as the Committee in each instance shall deem appropriate and not inconsistent with any of the express provisions of the Plan.

IX. ENDORSEMENT ON CERTIFICATES.

All certificates for shares of Capital Stock purchased under this Plan shall be endorsed as follows (either with or without additional explanatory endorsement):

"The shares of stock represented by this certificate were sold to an employee under the terms of a stock option agreement between the employee and NATIONAL STUDENT MARKETING CORPORATION, and are subject to, and transferable only upon compliance with, the terms of such agreement, a copy of which is on file in the offices of NATIONAL STUDENT MARKETING CORPORATION at Washington, D. C. Upon request, and without charge, the Corporation will furnish to any shareholder a full statement of such agreement."

X. EFFECT OF CHANGE IN CAPITAL STOCK SUBJECT TO THE PLAN.

The aggregate number of shares of Capital Stock available for Option under the Plan, the shares subject to any Option, and the price per share, shall all be proportionately adjusted for any increase or decrease in the number of shares of Capital Stock issued subsequent to the effective date of the Plan, resulting from a subdivision or consolidation of shares or any other capital adjustment, the payment of a stock dividend, or other increase or decrease in such shares effected without receipt of consideration by the Company.

XI. AMENDMENT AND DISCONTINUANCE.

The Board may, by resolution, terminate, amend or revise the Plan with respect to any shares as to which Options have not been granted; provided, however, that no such action may be taken which would prevent Options issued under the Plan from being "qualified stock options" within the meaning of the Internal Revenue Code of 1954, and, without approval by the affirmative vote of the holders of a majority of the outstanding shares of the Capital Stock, no amendment shall change the maximum number of shares to be offered for sale under Options in the aggregate (except in accordance with provisions of Article X); reduce the Option price per share below the minimum price set forth in Article VIII (except in accordance with provisions of Article X); change the class of employees eligible to participate; or extend the term of the Plan. The Board may not, without the consent of the holder of an Option, alter or impair any Option previously granted under the Plan except as authorized herein. Unless sooner terminated, this Plan shall remain in effect for a period of ten (10) years from the date of adoption of the Plan by the Board. Termination of the Plan shall not affect any Options previously granted and such Options shall remain in effect until they have been fully exercised, are surrendered, or by their terms expire.

XII. USE OF PROCEEDS.

The proceeds of the sale of shares, whether newly issued or previously acquired, shall be added to and administered as a part of the general assets of the Company.

XIII. QUALIFIED STOCK OPTION.

This Plan is a "qualified stock option" plan within the meaning of Section 422 of the Internal Revenue Code of 1954, and all provisions shall be construed and applied consistently therewith.

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XIV. EFFECTIVE DATE OF THE PLAN.

The Plan shall not become effective unless approved by a two-thirds vote of the outstanding shares of Capital Stock of the Company within twelve months of the date the Plan is adopted by the Board. Nothing contained in this Plan or in any resolution adopted or to be adopted by the Board or the stockholders of the Company shall constitute the granting of an Option. The granting of an Option shall take place only when a written option certificate shall have been duly executed by or on behalf of the Company by its duly authorized officers and by the Grantee.

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Government's Exhibit 25

SCHEDULE C

AGREEMENT AND PLAN OF MERGER dated as of the 13th day of August, 1969 by and between NATIONAL STUDENT MARKETING CORPORATION, a District of Columbia corporation ("NSMC"), and INTERSTATE NATIONAL CORPORATION, a Nevada corporation ("Interstate").

WITNESSETH:

WHEREAS, the respective Boards of Directors of NSMC and Interstate deem it advisable for the general welfare and advantage of the respective corporations and their shareholders that Interstate be merged into NSMC pursuant to this Agreement and the applicable laws of the State of Nevada and the District of Columbia; and

WHEREAS, to effect such merger Interstate will be merged into NSMC and upon the effectiveness of such merger, shares of Interstate Common Stock, par value $1 per share ("Interstate Common Stock"), and Interstate Series A Convertible Preferred Stock, without par value ("Interstate Preferred Stock"), all of such shares being hereinafter sometimes called the "Interstate Stock", will be converted into NSMC Common Stock, par value $.025 per share ("NSMC Common Stock");

NOW, THEREFORE, in consideration of the mutual agreements and conditions herein contained, NSMC and Interstate hereby agree each with the other, in accordance with the applicable laws of the State of Nevada and the District of Columbia, that Interstate shall be merged into NSMC (which in its capacity as the surviving corporation is sometimes hereinafter called the "Surviving Corporation"), and the terms and conditions of the merger and the mode of carrying them into effect are and shall be as follows:

1. When this Agreement and the transactions contemplated hereby have been approved as required by Section 78.470 of the General Corporation Law of the State of Nevada and Sections 68 and 71 of the Business Corporation Act of the District of Columbia and when this Agreement has been filed in accordance with the laws of the State of Nevada and the Articles of Merger in substantially the form annexed hereto as Exhibit A have been filed in accordance with the laws of the District of Columbia, the separate existence of Interstate shall cease and it shall be merged into NSMC. The date on which such filing has been completed and the transaction contemplated hereby becomes effective shall be known as the "Effective Date."

2. The laws which are to govern the Surviving Corporation are the laws of the District of Columbia. From and after the Effective Date the Articles of Incorporation of the Surviving Corporation shall be the Articles of Incorporation of NSMC as in effect on the Effective Date, subject always to the right of the Surviving Corporation to amend its Articles of Incorporation in accordance with the laws of the District of Columbia. The By-Laws of the Surviving Corporation shall be the By-Laws of NSMC as in effect on the Effective Date, until changed or amended as provided therein.

3. (a) Subject to paragraph 3(c) below, upon the effectiveness of the merger, (i) each share of Interstate Common Stock issued and outstanding immediately prior to the Effective Date of the merger shall, by virtue of the merger and without any action on the part of the holder thereof, be converted into ⅔ of one fully paid and non-assessable share of NSMC Common Stock, (ii) each share of Interstate Preferred Stock issued and outstanding immediately prior to the Effective Date of the merger shall, by virtue of the merger and without any action on the part of the holder thereof, automatically be converted into 13⅓ fully paid and non-assessable shares of NSMC Common Stock and (iii) each issued and outstanding share of NSMC Common Stock shall remain unchanged by the merger.

(b) The Riggs National Bank of Washington, Washington, D. C., as Exchange Agent, shall effectuate the exchange of stock certificates following consummation of the merger. Adoption of this Agreement by the stockholders of the constituent corporations shall constitute ratification of the appointment of such Exchange Agent. No fractional shares of NSMC Common Stock shall be

delivered. In lieu of any fractional shares of NSMC Common Stock, the Surviving Corporation shall afford each holder of a fractional interest the opportunity, through the Exchange Agent, on or before the forty-fifth day following the Effective Date, or on or before such later date (but in any event not later than the ninetieth day following the Effective Date) as the Surviving Corporation may determine, either to consolidate his fractional interests into one full share of NSMC Common Stock by purchasing the additional fractional interest required for such consolidation or to sell such fractional interest and obtain the net proceeds thereof, subject to the further provisions of this Section 3(b), following the surrender of his Interstate stock certificate(s) for exchange as provided below. Any fractional interests with respect to which instructions shall not have been so received by the Exchange Agent within the prescribed period shall be sold by the Exchange Agent, and the holder of any such fractional interest shall thereafter be entitled to receive the net proceeds of the sale thereof upon the surrender of his Interstate certificate(s) for exchange. The Exchange Agent may offset buy and sell orders and, to the extent it is unable to offset, the Exchange Agent will effect transactions in full shares of NSMC Common Stock in the open market. As promptly as practicable after the Effective Date, each holder of outstanding certificates theretofore representing shares of Interstate Stock shall surrender the same to the Exchange Agent, and such holder shall be entitled, upon such surrender, to receive in exchange therefor certificates representing the number of full shares of NSMC Common Stock into which such shares of Interstate Stock theretofore represented by the certificate or certificates so surrendered shall have been converted pursuant to paragraphs 3(a) and 3(c). Until so surrendered, each outstanding certificate which prior to the Effective Date, represented Interstate Stock, shall be deemed for all purposes (except as to the payment of dividends) to evidence ownership of the number of full shares of NSMC Common Stock into which such shares of Interstate Stock are converted, and no dividend or other distribution, if any, payable to holders of record of shares of NSMC Common Stock as of any date subsequent to the Effective Date shall be paid to the holders of outstanding certificates theretofore representing shares of Interstate Stock; provided, however, that upon surrender and exchange of such outstanding certificates theretofore representing shares of Interstate Stock there shall be paid to the record holders of the certificates for NSMC Common Stock issued in exchange therefor the amount, without interest thereon, of dividends and other distributions, if any, paid since the Effective Date of the merger with respect to the shares of NSMC Common Stock represented thereby. NSMC agrees to pay any and all expenses of the Exchange Agent in connection with the performance of its duties hereunder.

(c) The number of shares of NSMC Common Stock into which each share of Interstate Stock shall be converted pursuant to paragraph 3(a) shall be increased in the event that the average of the bid prices of NSMC Common Stock on the over-the-counter market as reported by the National Quotation Bureau Incorporated for the 20 business days prior to the Effective Date (or if the NSMC Common Stock shall be at the time listed on a national stock exchange then the average of the closing prices of such stock for the 20 trading days prior to the Effective Date) is less than $45 per share. In such event, assuming a value for each share of NSMC Common Stock determined as hereinabove set forth in this paragraph, (i) each share of Interstate Common Stock shall be converted on the basis of $30 in value into an equivalent number of shares of NSMC Common Stock and (ii) each share of Interstate Preferred Stock shall be converted on the basis of $600 in value into an equivalent number of shares of NSMC Common Stock. Notwithstanding anything herein to the contrary, NSMC shall not be obligated to issue more than an aggregate of 942,000 shares of NSMC Common Stock pursuant to this paragraph 3(c) and paragraph 3(a).

(d) In the event that, prior to the Effective Date of the merger pursuant hereto, the outstanding shares of NSMC Common Stock shall have been, without new consideration, increased, decreased, changed into or exchanged for a different number or kind of shares or securities through reorganization, recapitalization, reclassification, stock dividend, stock split, or other like changes in NSMC's capitalization, then an appropriate and proportionate adjustment shall be made in the number and kind of shares of NSMC Common Stock to be thereafter delivered hereunder. Upon any such event, determination of the value of the NSMC Common Stock for purposes of paragraph 3(c) shall be appropriately and proportionately adjusted.

4. Upon the merger becoming effective, all the rights, privileges, powers and franchises and all property and assets of every kind and description of Interstate and NSMC, including, without limitation, trade names, licenses and registrations, and the goodwill relating to any of the foregoing, shall be vested in and be held and enjoyed by NSMC as the Surviving Corporation, without further act or deed, and all the estates and interests of every kind of Interstate and NSMC, including all debts due to either of them on whatever account, shall be as effectually the property of the Surviving Corporation as they were of Interstate and NSMC, and the title to any real estate vested by deed or otherwise in Interstate and NSMC shall not revert or be in any way impaired by reason of the merger; and all rights of creditors and all liens upon any property of Interstate and NSMC shall be preserved unimpaired, and all debts, liabilities and duties of Interstate and NSMC shall thenceforth attach to NSMC as the Surviving Corporation and may be enforced against it to the same extent as if said debts, liabilities and duties had been incurred or contracted by it.

5. Interstate represents, warrants and agrees as follows:

(a) Interstate is a corporation duly organized and validly existing in good standing under the laws of the State of Nevada with the power to own its property and to carry on its business as now being conducted, and is duly qualified to do business as a foreign corporation in each jurisdiction in which the character of the properties owned or the nature of the business conducted by it makes qualification as a foreign corporation necessary.

(b) Interstate owns, directly or through another subsidiary, all of the outstanding capital stock of the following subsidiaries (collectively the "Subsidiaries"):

Name	State of Incorporation
Interstate Fire & Casualty Company	Illinois
Interstate Reinsurance Corporation	Illinois
Chicago Insurance Company	Illinois
Interstate Life Assurance Company	Illinois
Geo. F. Brown & Sons, Inc.	Illinois
Brown and Hawley, Inc.	Illinois
Higham, Neilson, Whitridge & Reid, Inc.	Illinois
Central Treaty Brokers, Inc.	Illinois
Mid-America Insurance Agency, Inc.	Illinois
Geo. F. Brown & Sons, Inc.	Massachusetts
Brown and Hawley, Inc.	Indiana
Brown and Hawley, Inc.	Kentucky
Brown and Hawley, Inc.	New Jersey
Higham, Neilson, Whitridge & Reid, Inc.	Massachusetts

Each of the Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and has the requisite corporate power and authority to own its property and to carry on its business as now being conducted and is duly qualified and in good standing as a foreign corporation in each jurisdiction where the nature of the property owned or the business transacted by it make such qualification necessary. Interstate has directly or through a Subsidiary good and marketable title to all of the outstanding capital stock of the Subsidiaries, free and clear of any mortgage, pledge, lien, charge or encumbrance, or other rights in third persons to purchase any shares thereof. All of the outstanding shares of the Subsidiaries are duly and validly issued and are fully paid and non-assessable.

(c) The authorized capital stock of Interstate consists of 2,000,000 shares of Common Stock, par value $1 per share, and 1,000,000 shares of Preferred Stock, without par value, issuable in one

or more Series, of which 698,500 shares of Common Stock and 27,000 shares of Series A Convertible Preferred Stock are outstanding on August 13, 1969. Such outstanding shares have been validly authorized and issued and are fully paid and non-assessable. Interstate has no outstanding options, warrants or other rights, calls or commitments to purchase capital stock of Interstate, and there are no outstanding options, warrants, rights, calls, commitments, conversion rights, plans or other agreements of any character providing for the purchase of any authorized but unissued Interstate shares. Prior to the Effective Date, Interstate will not issue any capital stock (except upon conversions of Series A Convertible Preferred Stock) or authorize any increase in the number of shares of its authorized capital stock or issue any options or rights to subscribe for or purchase shares of its capital stock.

(d) Interstate has delivered to NSMC a consolidated balance sheet of Interstate and its Subsidiaries as of June 30, 1969 and a consolidated statement of income for the nine months then ended, reviewed but not audited by Peat, Marwick, Mitchell & Co., independent accountants. Interstate has also furnished NSMC with a consolidated balance sheet of Interstate and its Subsidiaries as of December 31, 1968 and a consolidated statement of income for the twelve months then ended, certified by Peat, Marwick, Mitchell & Co., independent accountants. Such financial statements are true and correct and have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods involved. The balance sheets fairly present the condition of Interstate and its Subsidiaries as of the dates thereof, and reflect all known claims against and debts and liabilities (including adequate provision for all taxes) fixed or contingent, as at the dates thereof, and the income statements fairly present the results of the operations of Interstate and its Subsidiaries for the periods indicated, subject in the case of the nine month statements to year-end audit adjustments. Neither such balance sheets nor such income statements contain any untrue statement of a material fact, or omit to state any material fact necessary in order to make the statements contained in this paragraph or therein not misleading.

(e) Except for such claims, debts and liabilities as are reflected in the June 30, 1969 consolidated balance sheet referred to in paragraph 5(d) above or except as set forth in a schedule heretofore delivered by Interstate to NSMC, neither Interstate nor any of its Subsidiaries has any outstanding indebtedness and none is subject to any claims or liabilities other than trade or business obligations incurred in the ordinary course of business. Without the prior written consent of NSMC, neither Interstate nor any of its Subsidiaries will incur, prior to the Effective Date, any additional indebtedness for money borrowed or incur any liabilities other than in the ordinary course of business.

(f) Since June 30, 1969, Interstate has not issued, or declared or paid any dividend on, or declared or made any distribution on, or authorized the creation or issuance of, or effected any split-up or any recapitalization of, any of its stock of any class, or directly or indirectly redeemed, purchased or otherwise acquired any of its outstanding stock, or authorized or made any change in its Certificate of Incorporation or agreed to take any such action.

(g) Interstate and the Subsidiaries have filed all requisite Federal income, payroll and excise tax returns and all appropriate state and local income, sales, payroll, personal property and franchise tax returns required to be filed by any of them and have paid all taxes and assessments (including interest or penalties) owed to the extent that such taxes and assessments have become payable, except as set forth in a schedule heretofore delivered by Interstate to NSMC. To the extent that such taxes and assessments and any subsequent tax liabilities have accrued but have not become payable, the full amounts thereof have been reflected as liabilities on the books of each. In addition, Interstate and the Subsidiaries have paid all taxes which would not require the filing of returns and which are required to be paid by any of them. The Federal income tax returns of Interstate and its Subsidiaries have been examined by the Internal Revenue Service for the periods indicated on a schedule heretofore delivered by Interstate to NSMC.

(h) Except as set forth in a schedule heretofore delivered by Interstate to NSMC, neither Interstate nor any of its Subsidiaries owns any real property. Except as noted on such schedule, Interstate has good and marketable title in fee simple to all such real property, free and clear of all encumbrances, liens and charges of every kind and character and such encumbrances, liens, easements, rights of way, restrictions, exceptions, reservations, limitations, burdens and other imperfections as do not materially impair the use of such real property in Interstate's business or materially affect the marketability of title thereto. Both Interstate and the Subsidiaries have good and marketable title to all personal and intangible property, including the personal and intangible property reflected in the most recent balance sheet delivered pursuant to paragraph 5(d) above, with such changes in such personal and intangible property as have been made since the date of such balance sheet, in the ordinary course of business. None of such personal and intangible property is subject (i) to a contract of sale or (ii) to mortgages, pledges, liens, encumbrances, security interests or charges of any kind or character. All buildings, structures and appurtenances and all machinery and equipment owned or leased by Interstate and the Subsidiaries are in good operating condition and in a state of good maintenance and repair, and are adequate and suitable for the purposes for which they are presently being used.

(i) Neither Interstate nor the Subsidiaries hold under lease any real or personal property except as set forth in a schedule heretofore delivered by Interstate to NSMC and except leases of personal property requiring the payment of rent of an aggregate of not more than $2,500 per month. Each lease set forth in such schedule is in full force and effect; all rents and additional rents due to date on each such lease have been paid; in each case the lessee has been in peaceable possession since the commencement of the original term of such lease and is not in default thereunder and no waiver, indulgence or postponement of the lessee's obligations thereunder has been granted by the lessor; and there exists no event, occurrence, condition or act which, with the giving of notice, the lapse of time or the happening of any further event or condition would become a default by lessee under any such lease. Neither Interstate nor any of its Subsidiaries has violated any of the terms or conditions under any such lease in any material respect and all of the covenants to be performed by the lessee under each such lease have been fully performed.

(j) Interstate has heretofore delivered to NSMC a true and correct list of all policies of insurance in which Interstate or any of the Subsidiaries are named as the insured party, including the amounts thereof, in force as at the date hereof, and such policies are in full force and effect. Interstate and the Subsidiaries will continue to maintain all of such policies, renewals thereof or policies having substantially similar coverage in full force and effect up to and including the Effective Date.

(k) Neither Interstate nor any of its Subsidiaries owns, possesses, or has a license in respect of any trade secret, technical information, patent, patent right, application for patent, trademark, trade name, copyright, process or formula used in its business, except as set forth in a schedule heretofore delivered by Interstate to NSMC. None of such trademarks or trade names have been registered in, filed in, or issued by any government office. Except as noted on such schedule, no trademark or trade name infringes on others, none is owned by or licensed to any other person, firm or corporation in the United States or elsewhere, no proceedings have been instituted or are pending or threatened which challenge the sole and exclusive ownership thereof by Interstate or any Subsidiary and none is subject to any proceeding or action attacking or contesting its validity. Except as set forth in such schedule, Interstate and each Subsidiary has full right, title and ownership to its corporate name and any and all other names under which it does business.

(l) Except for actions, suits or claims brought by policyholders, beneficiaries of policies or by claimants against policyholders or beneficiaries of policies of Interstate or its Subsidiaries incurred by them in their capacity as insurer, there are no actions, suits or proceedings pending or threatened against or affecting Interstate or any of the Subsidiaries, at law or in equity, by or before any Federal, state or municipal court or other governmental department, commission, board,

bureau, agency or instrumentality which might materially adversely affect the business or property of Interstate and the Subsidiaries taken as a whole. Interstate is not subject to any material liability by reason of a violation of any order, rule, or regulation of, or default with respect to any tax return or any other return or report payable to or required to be filed with, any Federal, state, municipal or other governmental agency, department, commission, bureau, board or instrumentality to which it is subject.

(m) Neither Interstate nor any of its Subsidiaries has any collective bargaining agreements with employees, executive employment agreements, executive compensation plans, employees' pension or retirement plans or pension trusts, employees' profit-sharing or bonus or stock purchase plans or any other similar agreements or plans, except as set forth in a schedule heretofore delivered by Interstate to NSMC. Between the date hereof and the Effective Date, neither Interstate nor any of its Subsidiaries will, without the written consent of NSMC, make or agree to make any increase in the rate of wages, salaries, bonuses or other remuneration of any executive employee or employees (other than increases for salaried or hourly-paid employees which increases are paid in accordance with the usual and ordinary practice of Interstate and the Subsidiaries), or become a party to any employment contract or arrangement with any of its officers or employees other than contracts which are terminable at will or subject to termination on not more than one month's notice, or become a party to any contract or arrangement with any officers or employees providing for bonuses or profit-sharing payments, severance pay or retirement benefits.

(n) Interstate has heretofore delivered to NSMC a true and correct list of all outstanding contracts, agreements or understandings to which Interstate or any of the Subsidiaries are a party, except (i) those referred to elsewhere in this paragraph 5, (ii) any contract, agreement or understanding involving an aggregate expenditure of less than $10,000 and (iii) insurance, reinsurance, brokerage or agency contracts entered into by Interstate and its Subsidiaries in the ordinary course of business. Neither Interstate nor any other party to any such contract, agreement or understanding is in default under the terms of any such contract, agreement or understanding. Except as set forth in such schedule, between the date hereof and the Effective Date, neither Interstate nor the Subsidiaries will, without the written consent of NSMC, make any changes or modifications in any such contracts, agreements or understandings, or incur any further obligations or surrender any rights thereunder, or make any further additions to their property or further purchases of equipment except such changes or modifications, each in an amount less than $10,000, as are in the ordinary course of business or are necessary or appropriate to maintain their respective properties and equipment. Interstate is not a party to any continuing contract for the future purchase of materials, supplies or equipment in excess of the requirements for its business as now being conducted.

(o) Neither Interstate nor any of the Subsidiaries is subject to any order, judgment or decree with respect to its business or condition or any of its assets or property, or to any charter, by-law, mortgage, lease, agreement, instrument, order, judgment or decree which would prevent the consummation of the transactions contemplated hereunder, or compliance by Interstate or any of the Subsidiaries with the terms, conditions and provisions hereof.

(p) Since June 30, 1969 the business and properties of Interstate and the Subsidiaries have not been materially adversely affected in any way as a result of any legislative or regulatory change, revocation of any license or right to do business, fire, explosion, accident, casualty, labor trouble, flood, drought, riot, storm, condemnation, or act of God or other public force or otherwise. For the purposes of this paragraph 5(p), a fire, explosion, accident, casualty, labor trouble, flood, drought, riot, storm, condemnation, or act of God or other public force or otherwise affecting Interstate or the Subsidiaries in their capacity as insurer shall be deemed materially adverse only if the total net loss to Interstate and its Subsidiaries exceeds $250,000 for any one occurrence.

(q) The copies of Interstate's Certificate of Incorporation certified by the Secretary of State of Nevada and By-Laws, as amended to date, certified by its Secretary, heretofore delivered

to NSMC, and of all instruments, agreements or other documents that may have been delivered to NSMC pursuant to the terms of this Agreement, are and will be complete and correct as of the date hereof and as of the Effective Date.

(r) Interstate and the Subsidiaries have maintained their books of account in accordance with the requirements of applicable regulatory authorities.

(s) In the negotiations leading up to the transaction contemplated by this Agreement, except as heretofore set forth in writing to NSMC, Interstate has not retained or utilized the services of any broker or finder.

(t) During the period from the date hereof to and including the Effective Date, Interstate will conduct its business solely in the usual and ordinary manner and will refrain from any transactions not in the ordinary course of business unless the prior written consent of NSMC to such transactions has been obtained.

(u) The information relating to Interstate contained in Interstate's and NSMC's Proxy Statements relating to the transactions contemplated by this Agreement will be accurate and correct and will not omit to state a material fact necessary to make such information not misleading.

(v) Interstate will use its best efforts to hold, on or before October 20, 1969, a Special Meeting of Stockholders to consider and act upon the merger described herein and Interstate will use its best efforts to have its stockholders approve the transactions contemplated hereby.

6. NSMC represents, warrants and agrees as follows:

(a) NSMC is a corporation duly organized, validly existing and in good standing under the laws of the District of Columbia with the power to own its property and to carry on its business as now being conducted and is duly qualified and in good standing as a foreign corporation in each jurisdiction where the nature of the property owned or the business transacted by it makes such qualification necessary.

(b) NSMC owns, directly or through another subsidiary, all of the outstanding capital stock of the following subsidiaries:

Name	Place of Incorporation
New England Subscription Service	Massachusetts
Collegiate Advertising Ltd.	British Columbia
Shaffer Enterprises, Inc.	Missouri
Compujob, Inc.	Pennsylvania
National Manpower Register	New York
Lewis Brothers Ceramics, Inc.	New York
Institutional Directories, Inc.	Texas
National Scholastic List Co.	New York
International Student Marketing Ltd.	England
The Colad Company, Inc.	New York
Consultants for Market Isolation, Inc.	New York
National Employment Services Institute	District of Columbia
New England Travel Corporation	Connecticut
Impressions by M. Inc	New York
Watsnu Sportswear, Inc	New York
Guest Pac Corporation	New York
Campus Pac Corporation	New York
Renselaar Corporation	Pennsylvania

Each of the subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and has the requisite corporate power and authority to own its property and to carry on its business as now being conducted and is duly qualified and in

good standing as a foreign corporation in each jurisdiction where the nature of the property owned or the business transacted by it makes such qualification necessary. Except as heretofore disclosed in writing to Interstate, NSMC has directly or through a subsidiary good and marketable title to all issued and outstanding shares of stock of its Subsidiaries, free and clear of any mortgage, pledge, lien, charge or encumbrance, or other rights in third persons to purchase any shares thereof. All of the shares of such Subsidiaries are duly and validly issued and are fully paid and non-assessable.

(c) The authorized capital stock of NSMC consists of 3,000,000 shares of Common Stock, par value $.025 per share, of which 2,904,555 shares (including 7,934 shares held in the treasury of NSMC) are issued and outstanding. Such outstanding shares have been, and the shares to be issued pursuant to this Agreement, when issued upon the consummation of this merger for the consideration as set forth herein, will be, validly issued, fully paid and non-assessable. Except as heretofore disclosed in a schedule delivered to Interstate by NSMC, NSMC has no outstanding options, warrants or other rights, calls or commitments to purchase capital stock of NSMC and there are no outstanding options, warrants, rights, calls, commitments, conversion rights, plans or other agreements of any character providing for the purchase of any authorized but unissued shares of NSMC. Prior to the Effective Date, NSMC will not, without prior notice to Interstate, authorize any increase in the number of shares of its authorized capital stock or issue any options or rights to subscribe for or purchase shares of its capital stock.

(d) NSMC has delivered to Interstate a consolidated balance sheet of NSMC and its subsidiaries as of May 31, 1969 and a consolidated statement of income for the nine months then ended, reviewed but not audited by Peat, Marwick, Mitchell & Co., independent accountants. NSMC has also furnished Interstate with a consolidated balance sheet of NSMC and its subsidiaries as of August 31, 1968 and a consolidated statement of income for the twelve months then ended, certified by Peat, Marwick, Mitchell & Co., independent accountants. Such financial statements are true and correct and have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods involved. The consolidated balance sheets fairly present the condition of NSMC and its subsidiaries as of the dates thereof, and reflect all known claims against and debts and liabilities (including adequate provision for all taxes), fixed or contingent, as at the dates thereof, and the income statements fairly present the results of the operations of NSMC and its subsidiaries for the periods indicated, subject in the case of the nine month statement to year-end audit adjustments. Neither such balance sheets nor such income statements contain any untrue statement of a material fact, or omit to state any material fact necessary in order to make the statements contained in this paragraph or therein not misleading.

(e) Except for such claims, debts and liabilities as are reflected in the May 31, 1969 balance sheet referred to in paragraph 6(d) above or except as set forth in a schedule heretofore delivered by NSMC to Interstate, neither NSMC nor its Subsidiaries has any outstanding indebtedness and is not subject to any claims or liabilities other than trade or business obligations incurred in the ordinary course of business.

(f) NSMC and its subsidiaries have filed all requisite Federal income, payroll and excise tax returns and all appropriate state and local income, sales, payroll, personal property and franchise tax returns required to be filed by them and have paid all taxes and assessments (including interest or penalties owed by them) to the extent that such taxes and assessments have become payable. To the extent that such taxes and assessments and any subsequent tax liabilities have accrued but have not become payable, the full amounts thereof have been reflected as liabilities on its books. In addition, NSMC has paid all taxes which would not require the filing of returns and which are required to be paid by it. The Federal income tax returns of NSMC and its Subsidiaries have been examined by the Internal Revenue Service for the periods indicated on a schedule heretofore delivered by NSMC to Interstate.

(g) Except as set forth in a schedule heretofore delivered by NSMC to Interstate, neither NSMC nor any of its subsidiaries owns any real property. Except as noted on such schedule, NSMC has good and marketable title in fee simple to all such real property, free and clear of

all encumbrances, liens and charges of every kind and character and such encumbrances, liens, easements, rights of way, restrictions, exceptions, reservations, limitations, burdens and other imperfections as do not materially impair the use of such real property in NSMC's business or materially affect the marketability of title thereto. Both NSMC and its subsidiaries have good and marketable title to all personal and intangible property, including the personal and intangible property, reflected in the most recent balance sheet delivered pursuant to paragraph 6(d) above, with such changes in such personal and intangible property as have been made since the date of such balance sheet in the ordinary course of business. None of such personal and intangible property is subject (i) to a contract of sale, except inventory to be sold in the ordinary course of business or (ii) to mortgages, pledges, liens, encumbrances, security interests or charges of any kind or character. All buildings, structures and appurtenances and all machinery and equipment owned or leased by NSMC and its subsidiaries are in good operating condition and in a state of good maintenance and repair, and are adequate and suitable for the purposes for which they are presently being used.

(h) Neither NSMC nor its subsidiaries hold under lease any real or personal property except as set forth in a schedule heretofore delivered by NSMC to Interstate. Each lease set forth in such schedule is in full force and effect; all rents and additional rents due to date on each such lease have been paid; in each case the lessee has been in peaceable possession since the commencement of the original term of such lease and is not in default thereunder and no waiver, indulgence or postponement of the lessee's obligations thereunder has been granted by the lessor; and there exists no event, occurrence, condition or act which, with the giving of notice, the lapse of time or the happening of any further event or condition would become a default by lessee under any such lease. Neither NSMC nor any of its subsidiaries has violated any of the terms or conditions under any such lease in any material respect and all of the covenants to be performed by the lessee under each such lease have been fully performed.

(i) NSMC has heretofore delivered to Interstate a true and correct list of all policies of insurance in which NSMC and its subsidiaries are named as the insured party, including the amounts thereof, in force as at the date hereof, and such policies are in full force and effect. NSMC and its subsidiaries will continue to maintain all of such policies, renewals thereof or policies having substantially similar coverage in full force and effect up to and including the Effective Date.

(j) Neither NSMC nor any of its subsidiaries owns, possesses, or has a license in respect of any trade secret, technical information, patent, patent right, application for patent, trademark, trade name, copyright, process or formula used in its business, except as set forth in a schedule heretofore delivered by NSMC to Interstate. Except as set forth on such schedule, none of such trademarks or trade names have been registered in, filed in, or issued by any government office. Except as noted on such schedule, no trademark or trade name infringes on others, none is owned by or licensed to any other person, firm or corporation in the United States or elsewhere, no proceedings have been instituted or are pending or threatened which challenge the sole and exclusive ownership thereof by NSMC or any of its subsidiaries and none is subject to any proceeding or action attacking or contesting its validity. Except as set forth in such schedule, NSMC has full right, title and ownership to its corporate name and any and all other names under which it does business.

(k) There are no actions, suits or proceedings pending or threatened against or affecting NSMC or any of its subsidiaries at law or in equity, by or before any Federal, state or municipal court or other governmental department, commission, board, bureau, agency or instrumentality which might materially adversely affect the business and property of NSMC and its subsidiaries taken as a whole. NSMC is not subject to any material liability by reason of a violation of any order, rule, or regulation of, or default with respect to any tax return or any other return or report payable to or required to be filed with, any Federal, state, municipal or other governmental agency, department, commission, bureau, board or instrumentality to which it is subject.

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Government's Exhibit 25

(l) Neither NSMC nor any of its subsidiaries has any collective bargaining agreements with employees, executive employment agreements, executive compensation plans, employees' pension or retirement plans or pension trusts, employees' profit-sharing or bonus or stock purchase plans or any other similar agreements or plans, except as set forth in a schedule heretofore delivered by NSMC to Interstate. Between the date hereof and the Effective Date, NSMC will not, without prior notice to Interstate, make or agree to make any increase in the rate of wages, salaries, bonuses or other remuneration of any executive employee or employees (other than increases for salaried employees which are paid in accordance with the usual and ordinary practice of NSMC and its subsidiaries), or become a party to any employment contract or arrangement with any of its officers or employees other than contracts which are terminable at will or subject to termination on not more than one month's notice, or become a party to any contract or arrangement with any officers or employees providing for bonuses or profit-sharing payments, severance pay or retirement benefits.

(m) NSMC has heretofore delivered to Interstate a true and correct list of all outstanding contracts, agreements or understandings to which NSMC and its subsidiaries are a party, except (i) those referred to elsewhere in this paragraph 6, (ii) any contract, agreement or understanding involving an aggregate expenditure of less than $10,000 and (iii) contracts entered into by NSMC and its subsidiaries in the ordinary course of its business. Neither NSMC nor any other party to any such contract, agreement or understanding is in default under the terms of any such contract, agreement or understanding. Except as set forth in such schedule between the date hereof and the Effective Date, neither NSMC nor the subsidiaries will, without prior written notice to Interstate, make any changes or modifications in any such contracts, agreements or understandings, or incur any further obligations or surrender any rights thereunder, or make any further additions to their property or further purchases of equipment except such changes or modifications each in an amount less than $10,000, as are in the ordinary course of business or are necessary or appropriate to maintain their respective properties and equipment. NSMC is not a party to any continuing contract for the future purchase of materials, supplies or equipment in excess of the requirements for its business as now being conducted.

(n) Neither NSMC nor its subsidiaries are subject to any order, judgment or decree with respect to their business or condition or any of their assets or property, or to any charter, by-law, mortgage, lease, agreement, instrument, order, judgment or decree which would prevent the consummation of the transactions contemplated hereunder, or compliance by NSMC with the terms, conditions and provisions hereof.

(o) All outstanding accounts receivable (trade or other) of NSMC, as set forth in the May 31, 1969 consolidated balance sheet and in its books and records, are collectible except to the extent of the reserve for bad debts provided for in such balance sheet.

(p) Since May 31, 1969 the business and properties of NSMC and its subsidiaries have not been materially adversely affected in any way as a result of any legislative or regulatory change, revocation of any license or right to do business, fire, explosion, accident, casualty, labor trouble, flood, drought, riot, storm, condemnation, or act of God or other public force or otherwise.

(q) The copies of NSMC's Articles of Incorporation certified by the Superintendent of Corporations of the District of Columbia and By-Laws, as amended to date, certified by its Secretary, heretofore delivered to Interstate, and of all instruments, agreements or other documents that may have been delivered to Interstate pursuant to the terms of this Agreement, are and will be complete and correct as of the date hereof and as of the Effective Date.

(r) During the period from the date hereof to and including the Effective Date, NSMC will conduct its business solely in the usual and ordinary manner and will refrain from any transactions not in the ordinary course of business unless the prior written consent of Interstate to such transactions has been obtained.

(s) In the negotiations leading up to the transaction contemplated by this Agreement, except as heretofore set forth in writing to Interstate, NSMC has not retained or otherwise utilized the services of any broker or finder.

(t) NSMC will use its best efforts to hold, on or before October 20, 1969, a Special Meeting of Stockholders to consider and act upon matters necessary for the merger described herein and NSMC will use its best efforts to have its stockholders approve the matters contemplated hereby.

(u) The information relating to NSMC contained in Interstate's and NSMC's Proxy Statements relating to the transactions contemplated by this Agreement will be accurate and correct and will not omit to state a material fact necessary to make such information not misleading.

7. NSMC and Interstate agree as follows:

(a) NSMC and Interstate and their authorized representatives shall, from and after the date hereof, have full access to the properties and the books and records of every kind of the other party and their respective subsidiaries, and each will furnish the other with such financial and operating data and other information as to its business and properties and copies of all documents referred to herein or in any list delivered hereunder, as the other shall from time to time request. From and after the date hereof and prior to the Effective Date, Interstate will advise NSMC's management with respect to significant developments relating to the operations and management of Interstate. Similarly, from and after the date hereof and prior to the Effective Date, NSMC will advise Interstate's management with respect to significant developments relating to the operations and management of NSMC.

(b) Interstate and NSMC each agrees to execute and deliver or cause to be executed and delivered such additional instruments as the other party may reasonably request for the purpose of carrying out this Agreement.

(c) Interstate agrees to and hereby does indemnify and hold harmless NSMC from and against any and all claims, losses, liabilities or expenses which may be asserted against or suffered by NSMC by any broker or other person claiming any finder's fee or commission by reason of services alleged to have been rendered for or at the instance of Interstate in respect to the execution of this Agreement or in respect to the merger contemplated hereby.

(d) NSMC agrees to and hereby does indemnify and hold harmless Interstate from and against any and all claims, losses, liabilities or expenses which may be asserted against or suffered by Interstate, by any broker or other person claiming any finder's fee or commission by reason of services alleged to have been rendered for or at the instance of NSMC in respect to the execution of this Agreement or in respect to the merger contemplated hereby.

(e) NSMC agrees, in the event that the transactions as herein contemplated are not consummated as herein provided, that NSMC will use its best efforts to keep confidential any information, unless readily ascertainable from public or published information or trade sources, obtained from Interstate or its Subsidiaries concerning the properties, operations and business of Interstate or its Subsidiaries and will return to Interstate any statements, documents or other written information obtained from Interstate or its Subsidiaries in connection therewith.

(f) Interstate agrees, in the event that the transactions as herein contemplated are not consummated as herein provided, that Interstate will use its best efforts to keep confidential any information, unless readily ascertainable from public or published information or trade sources, obtained from NSMC or any of its subsidiaries concerning the properties, operations and business of NSMC or any of its subsidiaries and will return to NSMC any statements, documents or other written information obtained from NSMC or any of its subsidiaries in connection therewith.

(g) Interstate agrees to use its best efforts to persuade all officers, directors and employees of Interstate to remain in the employment of the Surviving Corporation after the Effective Date and to retain, preserve and maintain the business relations of Interstate with its suppliers, customers and others.

8. The obligations of NSMC to consummate the transactions herein contemplated shall be subject to the fulfillment on or prior to the Effective Date of the following conditions:

(a) NSMC shall have received from Messrs. Lord, Bissell & Brook, counsel for Interstate, at Interstate's expense, a favorable opinion, dated the Effective Date, in form and substance satisfac-

tory to NSMC and its counsel, Messrs. White & Case, to the effect that (i) Interstate is duly organized and existing in good standing under the laws of Nevada; (ii) each Subsidiary is duly organized and existing in good standing under the laws of its jurisdiction of incorporation; (iii) Interstate and each Subsidiary has the corporate power to carry on its business as then being conducted and each is duly licensed or qualified as a foreign corporation doing business in each jurisdiction where, in the opinion of such counsel, the nature of the business transacted makes qualification as a foreign corporation necessary; (iv) the authorized and outstanding capital stock of Interstate is as represented in this Agreement, and the outstanding shares have been duly and validly authorized and issued and are fully paid and non-assessable; (v) no provision of the Certificate of Incorporation, as amended, or the By-Laws of Interstate or of any contract to which Interstate is a party, the existence of which such counsel has knowledge, prevents the consummation of the transactions in the manner contemplated hereunder; (vi) to the best knowledge of such counsel, there are no outstanding options or agreements on the part of Interstate to issue or sell any capital stock of Interstate except as set forth in this Agreement; (vii) this Agreement has been duly executed and delivered by Interstate and is a valid and binding obligation in accordance with its terms and any corporate action by Interstate required in order to authorize the transactions herein contemplated has been taken; (viii) to the best knowledge of such counsel, neither Interstate nor any Subsidiary is engaged in or threatened with any legal action or other proceeding, or has incurred or been charged with any presently pending violation of any Federal, state or local law or administrative regulation, which would materially adversely affect or impair the financial condition, business, operations, prospects, properties or assets of Interstate; (ix) upon the Effective Date, the Surviving Corporation will acquire all right, title and interest of Interstate in and to the assets and properties thereof; (x) all other actions and proceedings required by law or this Agreement to be taken by Interstate at or prior to the Effective Date in connection with this Agreement and the transactions provided for herein have been duly and validly taken; (xi) the stockholders of Interstate on a list heretofore furnished NSMC are the only stockholders of Interstate who, in the opinion of such counsel, may be deemed to be "affiliates" within the meaning of Rule 133 promulgated under the Securities Act of 1933, as amended, and the issuance and delivery of the shares of NSMC Common Stock to the stockholders of Interstate upon consummation of the merger (some of which shares are subject to an agreement provided for in paragraph 8(i) hereof), do not require registration under the Securities Act of 1933; and (xii) as to such other matters incident to the transactions contemplated hereby as NSMC and its counsel may reasonably request at or prior to the Effective Date. In rendering its opinion, such counsel may rely to the extent that such counsel feels justified upon certificates, affidavits or other documents signed by officers of Interstate with respect to any facts necessary to enable such counsel to give its opinion.

(b) No action or proceeding before a court or any other governmental agency or body shall have been instituted or threatened to restrain or prohibit the merger and no governmental agency or body shall have taken any other action or made any request of NSMC as a result of which the management of NSMC deems it inadvisable to proceed with the transaction.

(c) Except for changes in the ordinary course of business or as otherwise contemplated or permitted by this Agreement, the representations and warranties of Interstate and the Subsidiaries shall be true on and as of the Effective Date with the same effect as though all such representations and warranties had been made on and as of such date; each and all of the agreements of Interstate and the Subsidiaries to be performed on or before the Effective Date pursuant to the terms hereof shall have been duly performed; and Interstate shall have delivered to NSMC a certificate dated the Effective Date to both such effects.

(d) No material adverse change in the financial condition or business of Interstate and its Subsidiaries shall have occurred and Interstate and its Subsidiaries shall not have suffered any material loss or damage to any of their properties, or assets, whether or not covered by insurance, since June 30, 1969, which change, loss or damage materially affects or impairs the ability of Interstate and its Subsidiaries to conduct their business.

(e) NSMC shall have received a letter, satisfactory to it, from Peat, Marwick, Mitchell & Co. to the effect that on the basis of a limited review, but not an audit, of the latest available unaudited interim financial statements of Interstate and its Subsidiaries, consultations with responsible officers of Interstate and other specified procedures and inquiries (including all such procedures as they consider necessary under the circumstances in connection with such limited review), they have no reason to believe that the unaudited interim financial statements of Interstate as of June 30, 1969 and for the nine months then ended, were not prepared in accordance with accounting principles and practices consistent with those followed in the preparation of the December 31, 1968 financial statements or that any material adjustments of such unaudited interim financial statements are required for a fair presentation of the financial position or results of operations of Interstate and its Subsidiaries or that during the period from June 30, 1969 to a specified date not more than five business days prior to the Effective Date there has been any material adverse change in the financial position or results of operations of Interstate and its Subsidiaries taken as a whole.

(f) The stockholders of NSMC shall have approved an amendment to its Articles of Incorporation increasing the number of shares of authorized Common Stock to 7,500,000 shares and shall have approved the merger transaction described herein. In addition, the number of shares of NSMC Common Stock owned by NSMC stockholders exercising their rights as dissenting stockholders under Section 73 of the Business Corporation Act of the District of Columbia shall not have exceeded 2% of the outstanding shares of NSMC Common Stock.

(g) The stockholders of Interstate shall have approved the merger transaction described herein. In addition, the number of shares of Interstate Stock held by Interstate stockholders exercising their rights as dissenting stockholders under Section 78.505 of The General Corporation Law of Nevada shall not have exceeded five percent of the outstanding shares of Interstate Stock. For the purposes of the immediately preceding sentence, each share of Interstate Series A Convertible Preferred Stock shall be deemed to be twenty shares of Interstate Common Stock.

(h) NSMC shall have received copies of the charters and by-laws of each of the Subsidiaries certified by its Secretary.

(i) Each stockholder of Interstate who, in the opinion of counsel for NSMC, may be deemed to be an "affiliate" within the meaning of Rule 133 promulgated under the Securities Act of 1933, as amended (the "Principal Stockholders") shall have entered into an agreement with NSMC substantially in the form of Exhibit B providing that such stockholder is acquiring the NSMC Common Stock to be received by him in connection with the merger otherwise than with a view to the distribution thereof and providing that none of such shares of NSMC Common Stock received by such stockholder shall be sold or otherwise transferred except in the manner permitted herein or in such agreements.

(j) Pursuant to the provisions of paragraphs 3(a), 3(c) and Exhibit B hereof, NSMC shall not be obligated to issue and deliver more than an aggregate of 1,000,000 shares of its Common Stock to consummate the transactions contemplated hereby.

(k) The transactions contemplated herein shall have been consummated on or before November 28, 1969.

9. The obligation of Interstate to consummate the transactions herein contemplated shall be subject to the fulfillment on or prior to the Effective Date of the following conditions:

(a) Interstate shall have received from Messrs. White & Case, counsel for NSMC, at NSMC's expense, a favorable opinion, dated the Effective Date, in form and substance satisfactory to Interstate and to Interstate's counsel, Messrs. Lord, Bissell & Brook, to the effect that (i) NSMC is a corporation duly organized and validly existing in good standing under the laws of the District of Columbia; (ii) NSMC has the corporate power to carry on its business as then being conducted and is duly licensed or qualified as a foreign corporation doing business in each jurisdiction where, in the opinion of such counsel, the nature of the business transacted makes

qualification as a foreign corporation necessary; (iii) the authorized and outstanding capital stock of NSMC is as represented in this Agreement, and the outstanding shares have been duly and validly authorized and issued and are fully paid and non-assessable; (iv) the shares of NSMC Common Stock delivered pursuant to this Agreement have been duly and validly authorized and issued and are fully paid and non-assessable; (v) this Agreement has been duly executed and delivered by authorized officers of NSMC and is its valid obligation legally binding in accordance with its terms and any corporate action required in order to authorize the transactions herein contemplated has been taken; (vi) no provision of the Articles of Incorporation, as amended, or the by-laws of NSMC or of any contract to which NSMC is a party, the existence of which such counsel has knowledge, prevents the consummation of the transactions in the manner contemplated hereunder; (vii) to the best knowledge of such counsel, there are no outstanding options or agreements on the part of NSMC to issue or sell any capital stock of NSMC except as previously disclosed in writing to Interstate; (viii) to the best knowledge of such counsel, neither NSMC nor any of its subsidiaries is engaged in or threatened with any legal action or other proceeding, nor has any incurred or been charged with any presently pending violation of any Federal, state or local law or administrative regulation, which would materially adversely affect or impair the financial condition, business, operations, prospects, properties or assets of NSMC and its subsidiaries; (ix) all other actions and proceedings required by law or this Agreement to be taken by NSMC at or prior to the Effective Date in connection with this Agreement and the transactions provided for herein have been duly and validly taken; (x) the issuance and delivery of the shares of NSMC Common Stock to the stockholders of Interstate upon consummation of the merger (some of which shares are subject to an agreement provided for in paragraph 8(i) hereof), do not require registration under the Securities Act of 1933; and (xi) as to such other matters incident to the transactions contemplated hereby as Interstate and its counsel may reasonably request at or prior to the Effective Date. In rendering its opinion, such counsel may rely on an opinion of NSMC's general counsel with respect to foreign qualification of NSMC in paragraph (ii) and to the extent that such counsel feels justified upon certificates, affidavits or other documents signed by officers of NSMC with respect to any facts necessary to enable such counsel to give its opinion.

(b) No action or proceeding before a court or any other governmental agency or body shall have been instituted or threatened to restrain or prohibit the consummation of the merger and no governmental agency or body shall have taken any other action or made any request of Interstate or the Subsidiaries as a result of which they deem it inadvisable to proceed with the transaction.

(c) Except for changes in the ordinary course of business or as otherwise contemplated or permitted by this Agreement, the representations and warranties of NSMC herein contained shall be true on and as of the Effective Date with the same effect as though all such representations and warranties had been made on and as of such date; each and all of the agreements of NSMC to be performed on or before the Effective Date pursuant to the terms hereof shall have been duly performed; and NSMC shall have delivered to Interstate a certificate dated the Effective Date and signed by an officer of NSMC to both such effects.

(d) No material adverse change in the financial condition or business of NSMC shall have occurred and NSMC shall not have suffered any material loss or damage to any of its properties, or assets, whether or not covered by insurance, since May 31, 1969, which change, loss or damage materially affects or impairs the ability of NSMC to conduct its business.

(e) Interstate shall have received a letter, satisfactory to it, from Peat, Marwick, Mitchell & Co. to the effect that on the basis of a limited review, but not an audit, of the latest available unaudited interim financial statements of NSMC and its subsidiaries, consultations with responsible officers of NSMC and other specified procedures and inquiries (including all such procedures as they consider necessary under the circumstances in connection with such limited review), they have no reason to believe that the unaudited interim financial statements of NSMC as of May 31, 1969, and for the nine months then ended, were not prepared in accordance with accounting principles and practices consistent with those followed in the preparation of the August 31,

1968 audited financial statements or that any material adjustments of such unaudited interim financial statements are required for a fair presentation of the results of operations of NSMC and its subsidiaries or that during the period from May 31, 1969 to a specified date not more than five business days prior to the Effective Date there has been any material adverse change in the financial position or results of operations of NSMC and its subsidiaries taken as a whole.

(f) The stockholders of Interstate shall have approved the merger transaction described herein.

(g) The stockholders of NSMC shall have approved an amendment to its Articles of Incorporation increasing the number of shares of authorized Common Stock to 7,500,000 shares and shall have approved the merger transaction described herein.

(h) Interstate shall have received copies of the charters and by-laws of NSMC and each of its subsidiaries, certified by their respective Secretaries.

(i) Interstate shall have received from its counsel, Messrs. Lord, Bissell & Brook an opinion to the effect that the transactions contemplated by this Agreement will not result in the realization of taxable income to the stockholders of Interstate except with respect to fractional interests sold.

(j) The transactions contemplated herein shall have been consummated on or before November 28, 1969.

(k) The average of the bid prices of NSMC Common Stock on the over-the-counter market as reported by the National Quotation Bureau Incorporated for the 20 business days prior to the Effective Date (or if the NSMC Common Stock shall be at the time listed on a national stock exchange then the average of the closing prices of such stock for the 20 trading days prior to the Effective Date) shall not be less than $39.50 per share.

10. In addition to any other rights accruing to the Interstate Stockholders as a result of this Agreement, it is agreed that any Interstate Stockholder may participate in the registered distribution provided for and described in paragraphs 2(c) and 2(f) of Exhibit B to the extent set forth in Exhibit C attached hereto and made a part hereof and may have the same rights and obligations with respect to his participation as a Principal Stockholder described therein. In the event that any stockholder of Interstate has not entered into an agreement with NSMC substantially in the form as set forth in Exhibit C, all rights or claims of such stockholder in and to a future registration shall lapse and become of no further effect.

11. From and after the Effective Date none of the executive employees of Interstate shall (except those continuing in the employ of the Surviving Corporation and in the case of such employees none of them shall subsequent to the termination of their employ) retain in any manner or form any customer lists or other confidential written information, trade secrets or innovations of any kind relating to the business of Interstate nor will any of such persons divulge at any time such customer lists or written confidential information or other confidential information to persons other than directors, officers or employees of NSMC or its subsidiaries.

12. Any notice or communication required or permitted hereunder shall be sufficiently given if sent by first class mail, postage prepaid. and if to Interstate addressed to it at 175 West Jackson, Chicago, Illinois 60604, attention Cameron Brown, President, with a copy thereof to Messrs. Lord, Bissell & Brook, 135 South LaSalle Street, Chicago, Illinois 60603; and if to NSMC, addressed to it at 345 Park Avenue, New York, New York 10017, marked for the attention of the Secretary, with a copy thereof to Messrs. White & Case, 14 Wall Street, New York, New York 10005.

13. This Agreement and the rights of the parties hereunder may not be assigned (except by operation of law) and shall be binding upon and shall inure to the benefit of the parties hereto and their successors.

14. This Agreement and the Exhibits hereto and the documents delivered pursuant hereto constitute the entire agreement and understanding between Interstate and NSMC and supersedes any prior agreement and understanding relating to the subject matter of this Agreement.

15. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

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16. Whether or not the transaction herein contemplated shall be consummated, NSMC will pay the fees, expenses and disbursements of NSMC and its counsel in connection with the subject matter of this Agreement and any amendments thereto and all other costs and expenses incurred by NSMC in performance and compliance with all conditions to be performed by it under this Agreement and Interstate will pay the fees, expenses and disbursements of Interstate and its counsel in connection with the subject matter of this Agreement and any amendments thereto and all other costs and expenses incurred by Interstate in performance and compliance with all of the conditions to be performed by it under this Agreement.

17. This Agreement shall be construed and interpreted in accordance with the laws of the State of New York.

18. Anything herein to the contrary notwithstanding and notwithstanding any stockholder vote of approval of this Agreement and the merger provided herein, this Agreement may be terminated and abandoned by mutual consent of the Boards of Directors of NSMC and Interstate at any time prior to the Effective Date and the Board of Directors of any party may waive any of the conditions to the obligations of such party under this Agreement.

IN WITNESS WHEREOF, NSMC and Interstate have caused their corporate names to be hereunto subscribed and their corporate seals to be hereunto affixed by their officers thereunto duly authorized and Interstate has caused this Agreement to be executed by a majority of its Directors and its corporate seal to be affixed hereto, all as of the day and year first above written.

NATIONAL STUDENT MARKETING CORPORATION

[CORPORATE SEAL]

By s/ CORTES W. RANDELL
CORTES W. RANDELL
President

ATTEST:

s/ JOHN GLANDON DAVIES
JOHN GLANDON DAVIES
Secretary

INTERSTATE NATIONAL CORPORATION

By s/ CAMERON BROWN
CAMERON BROWN
President

[CORPORATE SEAL]

ATTEST:

s/ PAUL E. ALLISON
PAUL E. ALLISON
Secretary

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s/ PAUL E. ALLISON
PAUL E. ALLISON

s/ WILLIAM J. BACH
WILLIAM J. BACH

s/ LOUIS W. BIEGLER
LOUIS W. BIEGLER

s/ BAIRD BROWN
BAIRD BROWN

s/ CAMERON BROWN
CAMERON BROWN

s/ GLENN KEMP
GLENN KEMP

s/ MAX E. MEYER
MAX E. MEYER

s/ ROBERT P. TATE
ROBERT P. TATE

s/ P. A. WASHBURN
P. A. WASHBURN

Being a majority of the Board of Directors
of Interstate National Corporation.

ATTEST:

s/ PAUL E. ALLISON
PAUL E. ALLISON
Secretary

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EXHIBIT A

ARTICLES OF MERGER

Pursuant to Sections 68 and 71 of the District of Columbia Business Corporation Act, the undersigned hereby certify:

1. A conformed copy of the Agreement and Plan of Merger between National Student Marketing Corporation ("NSMC") and Interstate National Corporation ("Interstate") dated as of August 13, 1969 is attached hereto as Exhibit A and is hereby incorporated herein by reference.

2. The authorized capital stock of NSMC consists of 7,500,000 shares of Common Stock, par value $.01 per share, of which shares are issued and outstanding.

3. The authorized capital stock of Interstate consists of 2,000,000 shares of Common Stock, par value $1 per share, and 1,000,000 shares of Preferred Stock, without par value, issuable in one or more Series, of which 700,000 shares of Common Stock and 27,000 shares of Series A Convertible Preferred Stock are issued and outstanding.

4. The shareholders of NSMC, a District of Columbia corporation, approved and adopted the Agreement and Plan of Merger at a Special Meeting of Shareholders held on September , 1969. The results of the vote were as follows:

For the Plan	**Against the Plan**
Shares	Shares

5. The shareholders of Interstate, a Nevada corporation, approved and adopted the Agreement and Plan of Merger at a Special Meeting of Shareholders held on September , 1969. The results of the vote were as follows:

For the Plan	**Against the Plan**
Shares	Shares

IN WITNESS WHEREOF, these articles have been signed this day of September, 1969.

NATIONAL STUDENT MARKETING CORPORATION

By .....
President

[Corporate Seal]

ATTEST:

By .....
Secretary

INTERSTATE NATIONAL CORPORATION

By .....
President

[Corporate Seal]

ATTEST:

By .....
Secretary

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EXHIBIT B

PRINCIPAL STOCKHOLDERS AGREEMENT

AGREEMENT, dated as of September 8, 1969, between NATIONAL STUDENT MARKETING CORPORATION, a District of Columbia corporation (herein called "NSMC") and the stockholders of Interstate National Corporation listed on the signature page hereof (herein collectively called "Principal Stockholders" and individually "Principal Stockholder").

WITNESSETH:

WHEREAS, the Principal Stockholders, who are holders of record and beneficially of shares of Common Stock, par value $1 per share (herein called "Interstate Shares"), (each share of Interstate Series A Convertible Preferred Stock being deemed for the purposes of this agreement to be 20 shares of Interstate Common Stock), of Interstate National Corporation, a Nevada corporation (herein called "Interstate"), wish to induce NSMC to consummate an Agreement and Plan of Merger between NSMC and Interstate dated August 13, 1969 (herein called the "Agreement and Plan of Merger"), providing for the merger of Interstate into NSMC in a transaction which would cause the stock of each Interstate stockholder to be converted into shares of Common Stock, par value $.025 per share, of NSMC and NSMC wishes to consummate the transactions provided for in the Agreement and Plan of Merger subject to the satisfaction of the conditions contained therein including among others the execution and delivery by the Principal Stockholders of this Agreement.

NOW, THEREFORE, NSMC and the Principal Stockholders, severally and not jointly, agree:

1. The Principal Stockholders represent, warrant and agree that:

(a) They are the record and beneficial owners of the number of Interstate Shares set opposite their names below.

(b) Each Principal Stockholder is at the date hereof the lawful owner of the Interstate Shares set opposite his name below and will, on the Effective Date of the merger as provided in the Agreement and Plan of Merger, be the lawful owner of all the Interstate Shares set opposite his name below, in each case free and clear of all liens, encumbrances, options to purchase and other claims of every kind, except for possible contingent claims resulting from an Escrow Agreement dated May 31, 1969 between certain Principal Stockholders and Interstate, and all such Interstate Shares have been validly issued and are outstanding, fully paid and not liable to any further call or assessment.

(c) Each Principal Stockholder has full legal right, power and authority to enter into this Agreement, to make the representations, warranties and agreements contained herein.

2. (a) Each Principal Stockholder further represents and agrees that he has not directly or indirectly offered or disposed of or attempted to offer or dispose of any of the shares of NSMC Common Stock to be received by him in conjunction with the merger transaction and that he is not acquiring the shares of NSMC Common Stock pursuant to the Agreement and Plan of Merger with a view to the sale, distribution or other disposition thereof except as permitted by paragraphs (d) and (e) of Rule 133 under the Securities Act of 1933. The Principal Stockholders understand that NSMC is relying upon the truth and accuracy of the foregoing representation for issuing the Common Stock to the Principal Stockholders without first registering such NSMC Common Stock under the Securities Act of 1933. Each Principal Stockholder will and does hereby indemnify and hold harmless NSMC against all liabilities, costs and expenses, including reasonable attorneys' fees, incurred by NSMC as a result of any sale or distribution by such Principal Stockholder of such Common Stock in violation of such Act. All certificates representing NSMC Common Stock issued pursuant to this Agreement will contain a legend in the following form: "The transfer or pledge of the shares represented by this Certificate is subject to the provisions of an Agreement between the holder hereof and National Student Marketing Corporation dated as of September 8, 1969."

(b) Each Principal Stockholder agrees that, prior to any transfer or disposition of any shares of NSMC Common Stock, such Principal Stockholder will give written notice to NSMC expressing his intention to effect such transfer or disposition and describing briefly the manner of the proposed

transfer or disposition of such shares of NSMC Common Stock. Promptly upon receiving such notice, NSMC shall present copies thereof to its counsel and the provisions of the following subdivisions shall apply:

(i) If in the opinion of such counsel the proposed transfer or disposition does not require registration of such shares of NSMC Common Stock under the Securities Act of 1933, as then in force or any similar Federal statute then in force (of which opinion NSMC will notify such Principal Stockholder as promptly as practicable) or, if such Principal Stockholder shall have received a no-action letter from the Securities and Exchange Commission (a copy of which he shall have furnished to NSMC) such Principal Stockholder shall upon receipt of such opinion from NSMC or upon the furnishing of such copy to NSMC, as the case may be, be entitled to transfer or dispose of such shares in accordance with the terms of the notice delivered by him to NSMC.

(ii) If in the opinion of such counsel the proposed transfer or disposition requires such registration of such shares of NSMC Common Stock, such Principal Stockholder shall not proceed with such transfer or disposition unless and until NSMC shall have registered the same; provided, however, that NSMC shall be under no obligation to register any such shares except as hereinafter provided.

(c) In the case of any proposed registration prior to the end of one year next succeeding the Effective Date of Common Stock of NSMC on Form S-1 under the Securities Act of 1933 as then in effect or any similar Federal statute then in effect, NSMC shall send a written notice of such intended registration to each of the Principal Stockholders by first class mail, postage prepaid, at his respective address appearing on the stock records of NSMC. If within 20 days after the mailing of such notice any Principal Stockholder shall mail a written request, which shall be received by NSMC within 25 days after the mailing of the notice of an intended registration, requesting the registration of up to 25 percent of the shares received by him pursuant to the Agreement and Plan of Merger and held by him, NSMC shall include such shares as he shall specify in the filing of such registration and will use its best efforts to cause such registration statement to become effective as soon as practicable thereafter.

(d) In addition to the foregoing, in the case of any such proposed registration in the twelve months next succeeding such first anniversary date, notice shall be similarly given and such Principal Stockholder may request the registration of such shares as he may desire provided that in the aggregate he will not have disposed of in excess of 50 percent of the shares received by him pursuant hereto and NSMC shall include such shares as he shall specify in the filing of such registration and will use its best efforts to cause such registration statement tc become effective as soon as practicable thereafter. Further, in the case of any such proposed registration on or prior to August 31, 1973, notice shall be similarly given and such Principal Stockholder may request the registration of such additional shares as he may desire and NSMC will include such shares as he shall specify in the filing of such registration and will use its best efforts to cause such registration statement to become effective as soon as practicable thereafter.

(e) It is understood and agreed that, in the event of any registration of shares of NSMC Common Stock pursuant to paragraph 2(c) or 2(d) which involves an underwriter and in which underwriting the Principal Stockholders have elected not to participate upon filing such registration, NSMC may delay the delivery of prospectuses to the Principal Stockholders for a period not in excess of 60 days from the effective date of such registration statement provided, however, that if any NSMC stockholder whose shares are registered for offering from time to time is entitled to receive delivery of prospectuses earlier, the Principal Stockholders shall similarly receive such prospectuses.

(f) In the event that prior to March 31, 1970 NSMC shall not have filed a registration statement on Form S-1, the holders of NSMC Common Stock received by the Principal Stockholders wishing to transfer or dispose of at least 60,000 shares of the aggregate of such shares, may thereafter request in writing the registration of such shares of NSMC Common Stock. Upon receipt of any such request for registration, NSMC will, within six months thereafter,

file a registration statement and will use its best efforts to cause such registration statement to become effective as soon as practicable thereafter.

(g) In the event of any registration pursuant to this paragraph 2, NSMC shall indemnify such Principal Stockholders against all losses, claims, damages and liabilities caused by any untrue statement of a material fact contained in the registration statement or prospectus (and as amended or supplemented if NSMC shall have furnished any amendments or supplements thereto), or caused by any omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except in so far as such losses, claims, damages or liabilities are caused by any untrue statement of a material fact contained in, or any material fact omitted from, information furnished in writing to NSMC by any Principal Stockholder expressly for use therein. It shall be a condition precedent to any right of registration under this paragraph 2 that each Principal Stockholder requesting registration shall furnish to NSMC in writing such information as shall be reasonably requested by NSMC for use in any such registration statement or prospectus and shall agree in writing to indemnify NSMC, its directors and officers, and each person, if any, who controls NSMC within the meaning of Section 15 of the Securities Act of 1933, as amended, and any underwriter for NSMC against all losses, claims, damages and liabilities caused by any untrue statement of a material fact contained in, or any material fact omitted from, information so furnished in writing by such Principal Stockholder. The expenses relating to any registration statements referred to in paragraph 2(c), 2(d) or 2(f) including, without limitation, registration fees, printing costs and fees and disbursements of counsel and independent accountants shall be borne by NSMC. The portion of any Underwriter's compensation payable by the Principal Stockholders requesting registration shall be the New York Stock Exchange commission rate on round lot transactions. NSMC will use its best efforts to qualify such shares for sale under the laws of such states as shall be reasonably requested by the Stockholders provided, however, that NSMC shall not be required to qualify as a foreign corporation in any jurisdiction where it has not heretofore been qualified. NSMC shall not be required to maintain a current prospectus more than six months (or such longer period as may be mutually agreed upon) after the effective date of any registration statement pursuant to this paragraph 2. NSMC will furnish to the Principal Stockholders such copies as the Principal Stockholders may reasonably request of each prospectus and each amendment or supplement thereto included in such registration statement.

(h) Notwithstanding the foregoing provisions of this paragraph 2 each Principal Stockholder agrees that he will not dispose of any shares of NSMC Common Stock if in the opinion of NSMC's independent public accountants, Peat, Marwick, Mitchell & Co., or a comparable national accounting firm, such disposition will result in the accounting treatment of the transaction contemplated by the Agreement and Plan of Merger being other than a "pooling of interests".

3. In the event that any shares are registered and sold pursuant to paragraph 2(c) or 2(f) hereof at a price per share which is less than the lesser of the price per share of NSMC Common Stock as determined in paragraph 3(c) of the Agreement and Plan of Merger or $45, an additional number of shares of NSMC Common Stock will be issued to the Principal Stockholders, the number of such shares being determined by multiplying the difference between that price and such public offering price by the number of shares to be sold and dividing that product by the public offering price. For the purposes of the calculations provided for in this paragraph 3 the public offering price shall be (i) if an underwriter is involved, the sales price to the public less an amount equal to the New York Stock Exchange commission rate on round lot transactions received by the Principal Stockholders from such underwriter or (ii) if no underwriter is involved, the average of the closing bid prices as reported by the National Quotation Bureau Incorporated for the fourteen trading days after the delivery of a prospectus to the Stockholders or if the NSMC Common Stock shall be at the time listed on a national stock exchange then the average of the closing prices of such stock for the fourteen trading days after the delivery of a prospectus. The Principal Stockholders agree that in the event that NSMC shall, in connection with a registration filed pursuant to paragraph 2(c) or 2(f) hereof, file a registration which includes shares of the Principal Stockholders and negotiate a price per share with an underwriter in connection with a public distribution of stock by NSMC, such Principal Stockholders will participate at the price so negotiated.

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4. The representations, warranties and agreements made in this Agreement by each of the Principal Stockholders shall survive the execution and delivery of this Agreement, the consummation of the merger as provided in the Agreement and Plan of Merger and the exchange of Interstate Shares for NSMC Shares by each of the Principal Stockholders pursuant thereto. Each Principal Stockholder, severally and not jointly, agrees to indemnify NSMC against all claims, damage and loss caused by a breach by such Principal Stockholder of any of the representations, warranties or agreements contained herein.

5. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and the successors of NSMC and the successors, and legal representatives and assigns of each of the Principal Stockholders. The rights of the parties hereunder may not be assigned, except that the rights of NSMC may be assigned in connection with a sale of substantially all of its assets or any merger to which it is a party.

6. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

7. This Agreement may be executed simultaneously in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, each of the Principal Stockholders has hereunto affixed his signature and NSMC has caused its corporate name to be hereunto subscribed and its corporate seal to be hereunto affixed by its officers thereunto duly authorized the day and year first above written.

Interstate Shares		
Common Stock	Series A Convertible Preferred Stock	Name of Stockholder
17,038	—	Paul E. Allison
4,320	—	Alice S. Bach
11,446	—	William J. Bach
1,624	813	Robert Bird and Joen B. Bird
3,090	—	The Biegler Foundation
12,400	5,470	Louis W. Biegler
1,544	—	Louis W. Biegler & his Successors in Tr. Trustee of the Barry Lee Biegler Tr.
1,544	—	Louis W. Biegler & his Successors in Tr. Trustee of the William Louis Biegler Tr.

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Interstate Shares		
Common Stock	Series A Convertible Preferred Stock	Name of Stockholder
1,236	—	Bernice S. Biegler & her Successors in Tr. Trustee of the Barry Lee Biegler Tr.
1,236	—	Bernice S. Biegler & her Successors in Tr. Trustee of the William Louis Biegler Tr.
4,262	2,843	Baird Brown
100	—	Baird Brown Foundation
16,066	11,508	Cameron Brown
10,454	—	Cameron Brown Foundation
12,282	2,843	Alan J. Carey
2,100	—	Croplands Inc.
8,648	—	Geo. F. Brown & Sons, Inc.
398	—	Donald E. Jeffers and Marion D. Jeffers
6,180	—	Glenn Kemp
6,798	—	Rozanne P. Kemp
1,240	271	Robert Martin and Beth K. Martin
1,240	—	Max E. Meyer
3,130	—	Max E. Meyer, as Trustee of Trust A
3,130	—	Max E. Meyer, as Trustee of Trust B

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Interstate Shares

Common Stock	Series A Convertible Preferred Stock	Name of Stockholder
1,030	—	Max E. Meyer, as Trustee of Trust D
1,030	—	Max E. Meyer, as Trustee of Trust R
420	—	Max E. Meyer, Trustee for Deborah S. Brown
420	—	Max E. Meyer, Trustee for Reid L. Brown
412	3,252	Kingman Reid
3,842	—	Catherine C. Tate, Life Tenant V. W. William Gordon Cole
4,060	—	Catherine C. Tate
23,152	—	Robert P. Tate
5,700	—	Tate-Dooley Trust K. Robert Dooley, Trustee
2,771	—	Ellen T. Dooley
1,473	—	K. Robert Dooley
	—	Trude & Co.
12,476	—	P. A. Washburn

NATIONAL STUDENT MARKETING CORPORATION

By .....
President

Attest:

.....
Secretary

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EXHIBIT C

STOCKHOLDERS' POWER OF ATTORNEY

Power of Attorney dated as of , 1969, between the undersigned and Paul E. Allison and William J. Bach.

In order to participate in the first registered offering of common stock of National Student Marketing Corporation ("NSMC") pursuant to the provisions of the Agreement and Plan of Merger ("Plan") dated as of August 13, 1969 by and among NSMC and Interstate National Corporation ("Interstate"), the undersigned hereby agrees as follows:

I. *Appointment of Representatives*

A. The undersigned hereby irrevocably makes, constitutes and appoints Paul E. Allison and William J. Bach and either one of them of Bloomington, Illinois as the undersigned's Representatives, to act as his agents and attorneys-in-fact and in the name and on behalf of the undersigned to:

1. In the event of an underwritten registered offering:

(a) Agree with the underwriters upon the price at which the common stock of NSMC shall be sold for the account of the undersigned, as well as upon all other terms of the sale to the underwriters and the reoffering by them; provided, however, that the Representatives are instructed to accept whatever offering price per share the former principal Interstate stockholders agree to accept for any stock that they are selling to such underwriters;

(b) Execute an underwriting agreement pursuant to which the shares will be sold;

(c) Execute and deliver such documents and take such action as may be appropriate in registering the shares being sold by the undersigned hereunder with the Securities and Exchange Commission and in registering or qualifying such shares under the Securities or Blue Sky Laws of such states of the United States as the Representatives may determine;

(d) Execute any and all documents necessary or expedient in effecting the sale of the shares being sold by the undersigned hereunder;

(e) Cause The Riggs National Bank of Washington, as agent for the Undersigned, to receive and receipt for the proceeds from the sale of such shares and to pay for the account of the undersigned the expenses of such sale chargeable to the undersigned, including but not limited to all stock transfer taxes;

(f) Cause to be made any and all transfers on the books of NSMC with respect to the Interstate Common Stock represented by certificates delivered herewith in order to effect the conversion of such stock into NSMC stock pursuant to the merger and for that purpose to execute in the name of the undersigned stock powers necessary to carry out such transfers;

(g) Cause to be made any and all transfers on the books of NSMC with respect to the NSMC common stock received in conversion of the Interstate common stock referred to in subparagraph (f) above in order to effect such sale and deliver certificates for the shares of NSMC to or on the order of the underwriters or their nominee or nominees and for that purpose to execute in the name of the undersigned stock powers necessary to carry out such transfers;

(h) Retain legal counsel and other agents and employees in connection with all matters and things set forth or referred to herein;

(i) Otherwise act for and in the name and on behalf of the undersigned with respect to the transactions described herein as fully as the undersigned could if then personally present and acting, or

2. In the event it is determined that there will be an offering not involving an underwriter, promptly to return such shares to the undersigned whereupon the undersigned shall be entitled to sell such registered shares in the open market from time to time at such time and price as may be determined by the undersigned; provided, however, that the undersigned shall use his best efforts to maximize the price to be received.

In the event that any such sale is at a price so as to effectuate the guarantee as provided in Paragraph 3 of Exhibit B to the Plan, the undersigned shall have the right to receive additional shares as provided in Paragraph 3 upon presentation of evidence of such price to NSMC in writing within thirty (30) days of such sale.

B. The Representatives shall not personally be liable for any action taken or omitted to be taken (i) in good faith and believed by them to be authorized or within the discretion or rights or powers herein conferred upon them or (ii) in reliance on opinion of counsel. The undersigned agrees to indemnify and hold harmless the Representatives from all costs and expenses of every nature and kind incurred in the performance of this Power of Attorney or arising from any of the transactions contemplated herein.

C. The undersigned hereby authorizes the Representatives to make, execute, acknowledge and deliver (i) any contracts, orders, receipts, instructions, and letters of transmittal to the transfer agent of NSMC's common stock, and (ii) any assurances, communications and reports to the Securities and Exchange Commission which may be requisite or proper for effecting the registration of shares under the Securities Act of 1933 and the sale of shares pursuant thereto.

II. *Deposit and Sale of Shares*

A. The undersigned agrees to sell to the Underwriters for reoffering by them the number of shares of NSMC Common Stock representing a percentage as indicated by him on the signature page hereof (not in excess of 25%) of the undersigned's NSMC Common Stock received pursuant to the merger. The undersigned agrees that if the application of the percent designated by him to his NSMC Common Stock holdings does not result in a whole number, then the number of shares which the undersigned agrees to sell to the Underwriters may be rounded up to the nearest whole share. This Power of Attorney shall not become effective unless the undersigned shall have executed and mailed it to the Representatives within 20 days after the mailing of the accompanying notice from NSMC of a proposed registration of NSMC Common Stock and unless the Representatives shall have received this executed Power of Attorney within 25 days after the mailing of such notice from NSMC.

B. The undersigned delivers herewith to the Representatives certificates (which should not be endorsed) representing all of the shares of stock of Interstate which the undersigned owns. Said certificates are being delivered for the purpose of enabling the Representatives to (i) complete the conversion referred to in Paragraph (I)(A)(I)(f) hereof; and (ii) complete the sale, pursuant to the powers hereby granted, of the number of shares which the undersigned has agreed to sell. The certificates are listed on the last page hereof. Certificates for the NSMC shares in excess of the shares to be sold hereunder shall be delivered on the expiration of 60 days after the Effective Date of the Registration Statement except as provided in Paragraph (I)(A)(2) hereof. The undersigned agrees not to sell any of such excess shares until the expiration of said 60 day period.

III. *Representations.*

The undersigned hereby represents and warrants that he is the record owner of the shares of Interstate deposited herewith; that at the date of the closing pursuant to which an underwriter will purchase such shares, the undersigned will have good title to the shares to be sold to him, free and clear

of any liens, encumbrances, equities and claims, and full legal right, capacity and power, and all authorization and approval required by law, to sell, transfer and deliver such shares; and that the undersigned has full legal right, capacity and power to enter into this Power of Attorney and an underwriting agreement. The undersigned agrees to furnish to the Representatives such evidence as may be reasonably requested by them as to title and the power to sell such shares.

IV. *Termination of Agreement*

This Power of Attorney and all authority hereby conferred is granted and conferred subject to the interests of any underwriters and the other stockholders who may become parties to an underwriting agreement. In consideration of said interests and similar deposits by the other stockholders, for the purpose of completing the transactions contemplated by this Power of Attorney, the Power of Attorney granted hereby shall be irrevocable prior to March 31, 1970 and shall not be terminated prior thereto by any act of the undersigned or by operation of law. If, after execution hereof and prior to March 31, 1970, the undersigned shall die or become incapacitated, or any other event shall occur, the Representatives are nevertheless authorized and directed to complete all of the transactions authorized hereby as if such death or incapacity had not occurred and regardless of any notice thereof. After March 31, 1970 the Power of Attorney granted hereby shall terminate only upon receipt by the Representatives of written revocation thereof, except that in any event such Power of Attorney shall automatically terminate on October 31, 1970. Notwithstanding the foregoing, in the event that NSMC shall give notice of an intended registration pursuant to the terms of Section II (A) above and such registration shall not have been filed within a period of 60 days thereafter, this Power of Attorney shall terminate. Upon termination of this Power of Attorney, the Representatives shall account for and deliver to the undersigned such assets as are then held by the Representatives for the account of the undersigned.

V. *Miscellaneous Agreements*

A. The undersigned agrees to pay his pro-rata share of any expenses incurred in connection with the sale contemplated hereby other than such expenses including, without limitation, registration fees, printing costs and fees and disbursements of counsel and independent accountants which shall be borne by NSMC pursuant to paragraph 2(g) of the Plan. NSMC agrees to pay any and all expenses of Riggs National Bank of Washington incurred as Exchange Agent pursuant to the Plan or as NSMC's Transfer Agent pursuant hereto. The portion of the Underwriters' compensation payable by shareholders selling shares pursuant to this Power of Attorney shall be the New York Stock Exchange commission rate on round lot transactions.

B. The undersigned understands that under certain conditions no purchase of shares by underwriters may be consummated. Accordingly, the undersigned acknowledges that there is no commitment on the part of anyone to purchase the shares tendered by the undersigned.

C. As used herein, the singular form as appropriate shall be deemed to include the plural and the masculine form as appropriate shall be deemed to include the feminine.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney as of the date first above written.

Signature of Stockholder	**Number of Shares of Interstate Stock Owned**	**Percent of NSMC Stock to be Sold**

Signature Guaranteed by (Bank or Broker)

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STATE OF
COUNTY OF } ss.:

I, , a Notary Public in and for the State and County aforesaid, do hereby certify that , personally known to me to be the same person whose name is subscribed to the foregoing Power of Attorney, appeared before me this day in person and signed and sealed the said Power of Attorney as his free and voluntary act, for the uses and purposes therein set forth.

GIVEN under my hand and seal this day of , 1969.

.....

Notary Public

My Commission expires:

.....

The certificate(s) representing shares of common stock of Interstate delivered herewith to the Representatives by the above Interstate Stockholder pursuant to this Power of Attorney are identified as follows:

Common Share Certificate Numbers	**Number of Shares**

The undersigned Representatives hereby acknowledge receipt of the certificates above identified, to be held and disposed of pursuant to the Directions in the foregoing Power of Attorney, this day of , 1969.

.....

.....

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Government's Exhibit 25

SCHEDULE D

AGREEMENT AND PLAN OF MERGER dated the 11th day of June, 1969 by and between NATIONAL STUDENT MARKETING CORPORATION, a District of Columbia corporation ("NSMC"), and FIVE-DOLLAR-A-DAY TOURS, INC., a New York corporation ("Tours").

WITNESSETH:

WHEREAS, the respective Boards of Directors of NSMC and Tours deem it advisable for the general welfare and advantage of the respective corporations and their shareholders that Tours be merged into NSMC pursuant to this Agreement and the applicable laws of the District of Columbia and the State of New York; and

WHEREAS, NSMC will incorporate a new subsidiary ("New Tours") and pass, on or before November 1, 1969, to such subsidiary all of the assets of Tours; and

WHEREAS, to effect such merger Tours will be merged into NSMC and the holders of Tours Common Stock (the "Stockholders") will receive in exchange for their shares of Tours Common Stock, without par value ("Tours Stock"), 242,675 shares of NSMC Common Stock; and

WHEREAS, Tours and NSMC have been unable to agree upon the value of Tours and have agreed that such value is a factor of the earnings of New Tours during the period from November 1, 1969 through October 31, 1972; and

WHEREAS, in order to establish that value Tours and NSMC desire to provide that a portion of the shares of NSMC Common Stock to be received in connection with the merger will be deposited by the Stockholders in escrow to be returned to NSMC if earnings of Tours do not reach certain levels as herein set forth;

NOW, THEREFORE, in consideration of the mutual agreements and conditions herein contained, NSMC and Tours hereby agree each with the other, in accordance with the applicable laws of the District of Columbia and the State of New York, that Tours shall be merged into NSMC (which in its capacity as the surviving corporation is sometimes hereinafter called the "Surviving Corporation"), and the terms and conditions of the merger and the mode of carrying them into effect are and shall be as follows:

1. When this Agreement and the transactions contemplated hereby have been approved and the Articles of Merger, substantially in the form attached hereto as Exhibit A-1, required by Sections 68 and 71 of the Business Corporation Act of the District of Columbia have been filed in accordance with the provisions of such Law, and the Certificate of Merger, substantially in the form attached hereto as Exhibit A-2, required by Section 907 of the New York Business Corporation Law has been filed in accordance with the provisions of such Law, the separate existence of Tours shall cease and it shall be merged into NSMC. The date on which such recording and filing have been completed and the transaction contemplated hereby becomes effective shall be known as the "Effective Date."

2. The laws which are to govern the Surviving Corporation are the laws of the District of Columbia. The Articles of Incorporation of NSMC shall, on the Effective Date, be the Articles of Incorporation of the Surviving Corporation, from and after the Effective Date, subject always to the right of the Surviving Corporation to amend its Articles of Incorporation in accordance with the laws of the District of Columbia. The By-Laws of the Surviving Corporation shall be the By-Laws of NSMC as in effect on the Effective Date, until changed or amended as provided therein.

3. (a) On the Effective Date, NSMC will issue and deliver to the Stockholders 242,675 shares of NSMC Common Stock.

(b) Immediately upon receipt of the shares as set forth in paragraph (a) above, the Stockholders will deliver to The Riggs National Bank of Washington, as Escrow Agent pursuant to an

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Escrow Agreement, substantially in the form and substance of Exhibit B hereto (the "Escrow Agreement"), 73,500 shares of NSMC Common Stock (the "Fund A Escrowed Shares") and 49,000 shares of NSMC Common Stock (the "Fund B Escrowed Shares"), the Fund A Escrowed Shares to be released from escrow and delivered to the Stockholders in whose names such shares are registered, as follows:

(i) with respect to the year ending October 31, 1970, a number of shares of NSMC Common Stock equal in value to the amount, if any, by which New Tours' After Tax Earnings (as After Tax Earnings are defined in Exhibit C hereto) for such period exceeds the greater of (x) $145,000 or (y) After Tax Earnings for the twelve months ending October 31, 1969, whichever is greater, multiplied by 10;

(ii) with respect to the year ending October 31, 1971, a number of shares of NSMC Common Stock equal in value to the amount, if any, by which New Tours' After Tax Earnings for such period exceeds the greater of (x) $145,000 or (y) 1969 or 1970 After Tax Earnings, whichever is greater, multiplied by 10;

(iii) with respect to the year ending October 31, 1972, a number of shares of NSMC Common Stock equal in value to the amount, if any, by which New Tours' After Tax Earnings for such period exceeds the greater of (x) $145,000 or (y) 1969, 1970 or 1971 After Tax Earnings, whichever is greatest, multiplied by 10;

provided, however, that if the After Tax Earnings for the thirty-six months ended October 31, 1972 aggregate $900,000 or more and the Fund A Escrowed Shares have not theretofore all been released pursuant to the provisions of this paragraph 3(b), the balance of the Fund A Escrowed Shares not otherwise restricted under the terms of the Escrow Agreement shall then be released to the Stockholders at a rate determined by dividing the remainder of $3,160,500 less the value of the Fund A Escrowed Shares theretofore released by the average of the bid prices of NSMC Common Stock on the over-the-counter market as reported by the National Quotation Bureau Incorporated for the 30 business days prior to October 31, 1972 or if the NSMC Common Stock shall be at the time listed on a national stock exchange then the mean average of the closing prices of such stock for the 30 trading days prior to October 31, 1972. The Fund B Escrowed Shares shall be released as set forth in paragraph 13 hereof.

The value of NSMC Common Stock upon which the number of shares to be issued pursuant to this paragraph 3(b) shall be determined is the average of the bid prices of NSMC Common Stock on the over-the-counter market as reported by the National Quotation Bureau Incorporated for the 30 business days prior to issuance or if the NSMC Common Stock shall be at the time listed on a national stock exchange then the mean average of the closing prices of such stock for the 30 trading days prior to the closing provided for herein. Any shares required by this paragraph 3(b) to be released to the Stockholders shall be so released within thirty days following the date of issuance of the accountant's report referred to in Exhibit C hereto, which date shall in no event be more than 120 days after the end of the relevant period, the number of shares and the date of issuance being subject to adjustment as provided in the Escrow Agreement and herein. Any shares required to be released pursuant to this paragraph 3(b) shall, notwithstanding any provision of this Agreement or the Escrow Agreement to the contrary, be released within 5 years after the Effective Date.

(c) On the Effective Date, and as a result of the merger of Tours into NSMC, NSMC will deliver to the Stockholders all shares of NSMC Common Stock as set forth in paragraph 3(a) hereof. The shares of NSMC Common Stock to be issued or released pursuant to this paragraph 3 shall be apportioned among the Stockholders in the same proportion as the number of shares of Tours Stock owned by each Stockholder on the Effective Date bears to the total number of shares of Tours Stock owned by all the Stockholders. No fractional shares or scrip will be issued by NSMC, and fractional interests of each Stockholder will be increased or decreased to the nearest whole share.

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(d) In the event that, prior to any issuance and delivery of shares of NSMC Common Stock to the Stockholders pursuant hereto, the outstanding shares of NSMC Common Stock shall have been, without fair consideration, increased, decreased, changed into or exchanged for a different number or kind of shares or securities through reorganization, recapitalization, reclassification, stock dividend, stock split, or other like changes in NSMC's capitalization, then an appropriate and proportionate adjustment shall be made in the number and kind of shares of NSMC Common Stock to be thereafter delivered to the Stockholders hereunder. Upon any such event, determination of the value of the NSMC Common Stock for purposes of paragraph 3(b) shall be appropriately and proportionately adjusted.

4. Except as provided herein, upon the merger becoming effective, all the rights, privileges, powers and franchises and all property and assets of every kind and description of Tours and NSMC, including, without limitation, trade names, licenses and registrations, and the good will relating to any of the foregoing, shall be vested in and be held and enjoyed by NSMC as the Surviving Corporation, without further act or deed, and all the estates and interests of every kind of Tours and NSMC, including all debts due to any of them on whatever account, shall be as effectually the property of the Surviving Corporation as they were of Tours and NSMC, and the title to any real estate vested by deed or otherwise in Tours and NSMC shall not revert or be in any way impaired by reason of the merger; and all rights of creditors and all liens upon any property of Tours and NSMC shall be preserved unimpaired, and all debts, liabilities and duties of Tours and NSMC shall thenceforth attach to NSMC as the Surviving Corporation and may be enforced against it to the same extent as if said debts, liabilities and duties had been incurred or contracted by it.

5. NSMC and the Stockholders agree to execute and deliver the Escrow Agreement on the Effective Date.

6. Tours represents, warrants and agrees as follows:

(a) Tours is a corporation duly organized and validly existing in good standing under the laws of the State of New York with the power to own its property and to carry on its business as now being conducted, and there is no jurisdiction in which the character of the properties owned or the nature of the business conducted by it makes qualification as a foreign corporation necessary.

(b) Tours owns all or portions of the following subsidiaries (collectively the "Subsidiaries"):

Name	Jurisdiction of Incorporation	% Owned
Hotel Maatschappij Nievuwe Looiersstraat N.V.*.....	Netherlands	50%
Sightseeing International Ltd.....	Great Britain	80%
The 20th of January, 1969 Corp.*.....	Denmark	100%

* Doing business as Hotel Arthur Frommer.

Tours owns the percentage of the issued and outstanding shares of each of the Subsidiaries set forth above. Each of the Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and has the requisite corporate power and authority to own its property and to carry on its business as now being conducted and is duly qualified and in good standing as a foreign corporation in each jurisdiction where, to the knowledge of the officers of the respective Subsidiaries, the nature of the property owned or the business transacted by it make such qualification necessary. Tours has good and marketable title to the percentage ownership of the Subsidiaries, free and clear of any mortgage, pledge, lien, charge or encumbrance, or other rights in third persons to purchase any shares thereof except as heretofore disclosed in writing to NSMC. All of the shares of the Subsidiaries are duly and validly issued and are fully paid and non-assessable.

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(c) The authorized capital stock of Tours consists of 200 shares of Common Stock, without par value, of which 105 shares are issued and outstanding. Such issued shares have been validly authorized and issued and are fully paid and non-assessable, subject to Section 630 of the New York Business Corporation Law. Except as heretofore disclosed in writing to NSMC or as set forth in the Schedules annexed hereto, Tours has no outstanding options, warrants or other rights, calls or commitments to purchase capital stock of Tours, and there are no outstanding options, warrants, rights, calls, commitments, conversion rights, plans or other agreements of any character providing for the purchase of any authorized but unissued Tours shares. Prior to the Effective Date, Tours will not authorize any increase in the number of shares of its authorized capital stock or issue any options or rights to subscribe for or purchase shares of its capital stock.

(d) Tours has delivered to NSMC a balance sheet of Tours as of October 31, 1968 and a Statement of Income for the twelve months then ended, certified by Haskins & Sells, independent accountants. Tours has also furnished NSMC with an unaudited balance sheet of Tours as of March 31, 1969 and a Statement of Income for the five months then ended, prepared by Joseph Klein & Company, accountants. Such financial statements are true and correct and have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods involved. The balance sheets fairly present the condition of Tours as of the dates thereof, and reflect all known claims against and debts and liabilities (including adequate provision for all taxes), fixed or contingent, as at the dates thereof, and the Income Statements accurately present the results of the operations of Tours for the periods indicated, subject in the case of the five month statements to year-end audit adjustments. Neither such balance sheets nor such Income Statements contain any untrue statement of a material fact, or omit to state any material fact necessary in order to make the statements contained in this paragraph or therein not misleading.

(e) Except for such claims, debts and liabilities as are reflected in the March 31, 1969 balance sheet referred to in paragraph 6(d) above or as set forth in Exhibit D hereto, neither Tours nor any of its Subsidiaries has any outstanding indebtedness and none is subject to any claims or liabilities other than trade or business obligations incurred in the ordinary course of business. Without the prior written consent of NSMC, neither Tours nor any of its Subsidiaries will incur, prior to the Effective Date, any additional indebtedness for money borrowed or incur any liabilities other than in the ordinary course of business.

(f) Since March 31, 1969, Tours has not issued, or declared or paid any dividend on, or declared or made any distribution on, or authorized the creation or issuance of, or effected any split-up or any recapitalization of, any of its stock of any class, or directly or indirectly redeemed, purchased or otherwise acquired any of its outstanding stock, or authorized or made any change in its Certificate of Incorporation or agreed to take any such action.

(g) Tours has filed all requisite Federal income, payroll and excise tax returns and all appropriate state and local income, sales, payroll, personal property and franchise tax returns required to be filed by it and has paid all taxes and assessments (including interest or penalties) owed to the extent that such taxes and assessments have become payable. To the extent that such taxes and assessments and any subsequent tax liabilities have accrued but have not become payable, the full amounts thereof have been reflected as liabilities on its books. In addition, Tours has paid all taxes which would not require the filing of returns and which are required to be paid by it. The Federal income tax returns of Tours have been examined by the Internal Revenue Service for the fiscal year ending October 31, 1966 and no penalties have been assessed with respect thereto.

(h) Neither Tours nor any of its Subsidiaries owns any real property. Both Tours and the Subsidiaries have good and marketable title to all personal and intangible property, including the personal and intangible property, reflected in the most recent balance sheet delivered pursuant to paragraph 6(d) above, with such changes in such personal and intangible property as have

been made since the date of such balance sheet, in the ordinary course of business. None of such personal and intangible property is subject (i) to a contract of sale, except inventory to be sold in the ordinary course of business or (ii) to mortgages, pledges, liens, encumbrances, security interests or charges of any kind or character except as disclosed in Exhibit E hereto. All buildings, structures and appurtenances and all machinery and equipment leased by Tours and the Subsidiaries are in good operating condition and in a state of good maintenance and repair, and are adequate and suitable for the purposes for which they are presently being used.

(i) Neither Tours nor the Subsidiaries hold under lease any real or personal property except as set forth in Exhibit E hereto. Each lease set forth in Exhibit E is in full force and effect; all rents and additional rents due to date on each such lease have been paid; in each case the lessee has been in peaceable possession since the commencement of the original term of such lease and is not in default thereunder and no waiver, indulgence or postponement of the lessee's obligations thereunder has been granted by the lessor; and there exists no event, occurrence, condition or act which, with the giving of notice, the lapse of time or the happening of any further event or condition would become a default under any such lease. Neither Tours nor its Subsidiaries has violated any of the terms or conditions under any such lease in any material respect and all of the covenants to be performed by the lessee under each such lease have been fully performed.

(j) Attached hereto as Exhibit F is a true and correct list of all policies of insurance of Tours and the Subsidiaries including the amounts thereof, in force as at the date hereof, and such policies are in full force and effect. Tours and the Subsidiaries will continue to maintain all of such policies or renewals thereof in full force and effect up to and including the Effective Date.

(k) Tours does not own, possess, or have a license in respect of any trade secret, technical information, patent, patent right, application for patent, trademark, trade name, copyright, process or formula used in its business, except as set forth in Exhibit G. None of such trademarks and trade names have been registered in, filed in, or issued by any government office. Except as noted on such list, to the best knowledge and belief of the Tours' officers, no trademark or trade name infringes on others, none is owned by or licensed to any other person, firm or corporation in the United States or elsewhere, no proceedings have been instituted or are pending or threatened which challenge the sole and exclusive ownership thereof by Tours and none is subject to any proceeding or action attacking or contesting its validity. Except as set forth in Exhibit G attached hereto, Tours has full right, title and ownership to its corporate name and any and all other names under which it does business. The Stockholders Agreement dated as of November 27, 1961, among the Stockholders and referred to in Exhibit G hereto, relating to the Tours trade name will terminate on the Effective Date. To the best of its knowledge Tours possesses valid rights to use all trademarks, trade names, and all licenses now used and necessary to conduct its business as presently being conducted.

(l) There are no actions, suits or proceedings pending or threatened against or affecting Tours or the Subsidiaries, at law or in equity, by or before any Federal, state or municipal court or other governmental department, commission, board, bureau, agency or instrumentality which might materially adversely affect the business and property of Tours or any of the Subsidiaries. Tours is not subject to any material liability by reason of a violation of any order, rule, or regulation of, or default with respect to any tax return or any other return or report payable to or required to be filed with, any Federal, state, municipal or other governmental agency, department, commission, bureau, board or instrumentality to which it is subject.

(m) Neither Tours nor any of its Subsidiaries has any collective bargaining agreements with employees, executive employment agreements, executive compensation plans, employees' pension or retirement plans or pension trusts, employees' profit-sharing or bonus or stock purchase plans or any other similar agreements or plans, except as set forth in Exhibit H hereto. Between the date hereof and the Effective Date, Tours will not, without the written consent of NSMC,

make or agree to make any increase in the rate of wages, salaries, bonuses or other remuneration of any executive employee or employees, or become a party to any employment contract or arrangement with any of its officers or employees other than contracts which are terminable at will or subject to termination on not more than one month's notice, or become a party to any contract or arrangement with any officers or employees providing for bonuses or profit-sharing payments, severance pay or retirement benefits.

(n) Attached hereto as Exhibit I is a true and correct list of all outstanding contracts, agreements or understandings to which Tours is a party, except (i) those referred to elsewhere in this paragraph 6, and (ii) any contract, agreement or understanding involving an aggregate expenditure by Tours of less than $10,000. Neither Tours nor any other party to any such contract, agreement or understanding is in material default under the terms of any such contract, agreement or understanding. Except as set forth in Exhibit I hereto between the date hereof and the Effective Date, Tours will not, without the written consent of NSMC, make any changes or modifications in any such contracts, agreements or understandings, or incur any further obligations or surrender any rights thereunder, or make any further additions to its property or further purchases of equipment except such changes or modifications each in an amount less than $10,000, as are in the ordinary course of business or are necessary or appropriate to maintain their respective properties and equipment. Tours is not a party to any continuing contract for the future purchase of materials, supplies or equipment in excess of the requirements for its business as now being conducted.

(o) Tours is not subject to any order, judgment or decree with respect to its business or condition or any of its assets or property, or to any charter, by-law, mortgage, lease, agreement, instrument, order, judgment or decree which would prevent the consummation of the transactions contemplated hereunder, or compliance by Tours or the Stockholders with the terms, conditions and provisions hereof.

(p) All outstanding accounts receivable (trade or other) of Tours, as set forth in the March 31, 1969 balance sheet and in its books and records, are collectible except for 10 per cent of net bookings for future tours.

(q) Since March 31, 1969 the business and properties of Tours have not been substantially adversely affected in any way as a result of any legislative or regulatory change, revocation of any license or right to do business, fire, explosion, accident, casualty, labor trouble, flood, drought, riot, storm, condemnation, or act of God or other public force or otherwise.

(r) The copies of Tours' Certificate of Incorporation and By-Laws, as amended to date, certified by its Secretary, heretofore delivered to NSMC, and of all instruments, agreements or other documents that may have been delivered to NSMC pursuant to the terms of this Agreement, are and will be complete and correct as of the date hereof and as of the Effective Date.

(s) Tours has maintained its books of account in the usual, regular and ordinary manner in accordance with generally accepted accounting principles applied on a consistent basis except as explained in Note 1 to the balance sheet dated October 31, 1968 referred to in paragraph 6(d) hereof.

(t) In the negotiations leading up to the transaction contemplated by this Agreement, neither the Stockholders nor Tours has retained or utilized the services of any broker or finder.

(u) During the period from the date hereof to and including the Effective Date, Tours will conduct its business solely in the usual and ordinary manner and will refrain from any transactions not in the ordinary course of business unless the prior written consent of NSMC to such transactions has been obtained.

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7. NSMC represents, warrants and agrees as follows:

(a) NSMC is a corporation duly organized, validly existing and in good standing under the laws of the District of Columbia with the power to own its property and to carry on its business as now being conducted and is duly qualified and in good standing as a foreign corporation in the State of New York.

(b) The authorized capital stock of NSMC consists of 3,000,000 shares of Common Stock, par value $.025 per share, and as of the date hereof 2,908,723 shares are outstanding. Such outstanding shares have been and the shares to be issued hereunder when issued for the consideration as set forth herein will be validly issued and are or will be fully paid and non-assessable.

(c) The consolidated financial statements of NSMC as at August 31, 1968 contained in its 1968 Annual Report to Stockholders, certified by Peat, Marwick, Mitchell & Co., and the unaudited consolidated statement of earnings as reported to its shareholders for the six months ended February 28, 1969, prepared by NSMC are true and correct and fairly present the financial position of NSMC and its subsidiaries as of such dates, and the results of their operations for the periods then ended, subject in the case of the six month statement to year-end audit adjustments.

(d) In the negotiations leading up to the transaction contemplated by this Agreement, except as heretofore set forth in writing to Tours, NSMC has not retained or otherwise utilized the services of any broker or finder.

(e) The execution and performance of this Agreement by NSMC have been duly authorized by proper corporate action and such execution and performance are within its corporate powers.

(f) NSMC will use its best efforts to hold, on or before September 28, 1969, a Special Meeting of Stockholders to consider and act upon the merger described herein and the officers of NSMC will use their best efforts to have its stockholders approve the transactions contemplated hereby.

(g) There are no actions, suits or proceedings pending or threatened against or affecting NSMC or any of its subsidiaries at law or in equity, by or before any Federal, state or municipal court or other governmental department, commission, board, bureau, agency or instrumentality which might materially adversely affect the business and property of NSMC and its subsidiaries taken as a whole. NSMC is not subject to any material liability by reason of a violation of any order, rule, or regulation of, or default with respect to any tax return or any other return or report payable to or required to be filed with, any Federal, state, municipal or other governmental agency, department, commission, bureau, board or instrumentality to which it is subject.

(h) NSMC is not subject to any order, judgment or decree with respect to its business or condition or any of its assets or property, or to any charter, by-law, mortgage, lease, agreement, instrument, order, judgment or decree which would prevent the consummation of the transactions contemplated hereunder, or compliance by NSMC with the terms, conditions and provisions hereof.

(i) Since February 28, 1969 the business and properties of NSMC have not been substantially adversely affected in any way as a result of any legislative or regulatory change, revocation of any license or right to do business, fire, explosion, accident, casualty, labor trouble, flood, drought, riot, storm, condemnation, or act of God or other public force or otherwise.

(j) On the date hereof, neither NSMC nor any of its subsidiaries competes with the operations of Tours except to the extent that the operations of New England Travel Corporation, a Connecticut corporation, may be deemed to compete.

8. NSMC and Tours agree as follows:

(a) NSMC and its authorized representatives shall, from and after the date hereof, have full access to the properties and the books and records of every kind of Tours, and the officers

of Tours will furnish NSMC with such financial and operating data and other information as to the business and properties of Tours and copies of all documents referred to herein or in any list delivered hereunder, as NSMC shall from time to time request. The Stockholders will cause Tours and its officers and employees to comply with all of the conditions of this Agreement relating thereto. From and after the date hereof and prior to the Effective Date, the executive officers of Tours will consult with NSMC's management with respect to the operations and management of Tours.

(b) Tours and NSMC each agrees to execute and deliver or cause to be executed and delivered such additional instruments as the other party may reasonably request for the purpose of carrying out this Agreement.

(c) Tours agrees to and does hereby indemnify and hold harmless NSMC from and against any and all claims, losses, liabilities or expenses which may be asserted against NSMC or Tours by any broker or other person claiming any finder's fee or commission by reason of services alleged to have been rendered for or at the instance of Tours or the Stockholders or any of them in respect to the execution of this Agreement or in respect to the merger contemplated by this Agreement.

(d) NSMC agrees to and hereby does indemnify and hold harmless Tours, New Tours and the Stockholders from and against any and all claims, losses, liabilities or expenses which may be asserted against or suffered by Tours, New Tours and the Stockholders by any broker or other person claiming any finder's fee or commission by reason of services alleged to have been rendered for or at the instance of NSMC in respect to the execution of this Agreement or in respect to the merger contemplated by this Agreement.

(e) NSMC agrees, in the event that the transactions as herein contemplated are not consummated as herein provided that NSMC will use its best efforts to keep confidential any information (unless readily ascertainable from public or published information or trade sources) obtained from Tours or the Stockholders concerning the properties, operations and business of Tours and will return to Tours any statements, documents or other written information obtained from Tours or the Stockholders in connection therewith.

(f) The Stockholders agree to cooperate and use their best efforts to have the present officers, directors and employees of Tours cooperate with New Tours on and after the Effective Date in the collection of accounts and notes receivable owing to Tours on the Effective Date, and in furnishing information, evidence, testimony and other assistance in connection with any actions, proceedings, arrangements or disputes of any nature with respect to matters pertaining to all periods prior to the Effective Date.

(g) NSMC agrees on or before the Effective Date to incorporate New Tours as a New York corporation and to pass to such subsidiary on or before November 1, 1969 all of the assets of Tours (including the stock of the Subsidiaries) acquired pursuant to the merger contemplated herein. NSMC agrees that the Certificate of Incorporation of New Tours, to the extent that may be required by having paragraph 8(i) included herein, will comply with Section 620(b) of the New York Business Corporation Law.

(h) The Stockholders agree to use their best efforts to persuade all officers, directors and employees of Tours to remain in the employment of New Tours during the period after the Effective Date; the Stockholders will also use their best efforts to retain, preserve and maintain the business relations of Tours with its suppliers, customers and others.

(i) After the Effective Date and as long as Arthur Frommer, one of the Tours Stockholders, is employed by New Tours and owns at least 25% of the NSMC Common Stock received by him

on the Effective Date pursuant to this Agreement, NSMC will (i) insure that Arthur Frommer has the right to determine the New Tours board of directors (to be seven in number), the appointment of New Tours officers and the operations in the ordinary course of business, provided, however, that (x) Cortes W. Randell or his nominee is a director and that (y) the After Tax Earnings of New Tours have increased by $50,000 over that of the preceding year and (ii) nominate a representative of the Stockholders to serve on the NSMC Board of Directors.

(j) After the date hereof and prior to the termination of the Escrow Agreement, NSMC and its subsidiaries will not engage (except to the extent that they engage in such businesses or services on the date hereof) in competing services with those of Tours, New Tours or the Subsidiaries, or acquire or merge with or be acquired by any other corporation offering such services. In the event of any breach of this provision, the balance of the Fund A Escrowed Shares will be forthwith delivered to the Stockholders.

9. The obligations of NSMC to consummate the transactions herein contemplated shall be subject to the fulfillment on or prior to the Effective Date of the following conditions:

(a) NSMC shall have received from Messrs. Lowenthal, Landau, Fischer & Weisinger, counsel for Tours, a favorable opinion, dated the Effective Date, in form and substance satisfactory to NSMC and its counsel, Messrs. White & Case, to the effect that (i) Tours is duly organized and existing in good standing under the laws of New York; (ii) Tours has the corporate power to carry on its business as then being conducted and there is no jurisdiction in the United States where, in the opinion of such counsel, the nature of the business transacted makes qualification as a foreign corporation necessary; (iii) each Subsidiary is duly organized and existing in good standing under the laws of their respective jurisdictions and each is duly licensed or qualified to carry on its business as then being conducted; (iv) the authorized and outstanding capital stock of Tours is as represented in this Agreement, and the 105 outstanding shares have been duly and validly authorized and issued and are fully paid and non-assessable; (v) no provision of the Certificate of Incorporation, as amended, or the By-Laws of Tours or of any contract to which Tours is a party prevents the consummation of the transactions in the manner contemplated hereunder; (vi) to the best knowledge of such counsel, there are no outstanding options or agreements on the part of Tours to issue or sell any capital stock of Tours except as set forth in the Agreement; (vii) this Agreement and the Escrow Agreement have been duly executed and delivered by Tours and the Stockholders and each is the valid and binding obligation of each in accordance with its terms and any corporate action by Tours required in order to authorize the transactions herein contemplated has been taken; (viii) to the knowledge of such counsel, Tours is not engaged in or threatened with any legal action or other proceeding, nor has it incurred or been charged with any presently pending violation of any Federal, state or local law or administrative regulation, which would materially adversely affect or impair the financial condition, business, operations, prospects, properties or assets of Tours; (ix) upon the Effective Date the Surviving Corporation will acquire all right, title and interest of Tours in and to the assets and properties thereof; (x) all other actions and proceedings required by law or this Agreement to be taken by Tours at or prior to the Effective Date in connection with this Agreement and the transactions provided for herein have been duly and validly taken; and (xi) as to such other matters incident to the transactions contemplated hereby as NSMC and its counsel may reasonably request at or prior to the Effective Date. In rendering its opinion, such counsel may rely to the extent that such counsel feels justified upon certificates, affidavits or other documents signed by officers of Tours with respect to any facts necessary to enable such counsel to give its opinion.

(b) No action or proceeding before a court or any other governmental agency or body shall have been instituted or threatened to restrain or prohibit the merger and no governmental agency or body shall have taken any other action or made any request of NSMC as a result of which the management of NSMC deems it inadvisable to proceed with the transaction.

(c) The representations and warranties of Tours and the Stockholders shall be true on and as of the Effective Date with the same effect as though all such representations and warranties had been made on and as of such date subject to changes in the ordinary course of Tours' and the Subsidiaries' business; each and all of the agreements of Tours and the Stockholders to be performed on or before the Effective Date pursuant to the terms hereof shall have been duly performed; and Tours and the Stockholders shall have delivered to NSMC a certificate dated the Effective Date and signed by them or on their behalf to both such effects.

(d) No material adverse change in the financial condition or business of Tours shall have occurred and Tours shall not have suffered any material loss or damage to any of its properties or assets, whether or not covered by insurance, since March 31, 1969, which change, loss or damage materially affects or impairs the ability of Tours to conduct its business.

(e) The Stockholders shall have executed the Escrow Agreement substantially in the form attached hereto as Exhibit B.

(f) NSMC shall have received a balance sheet of Tours as at June 30, 1969 and a Statement of Income for the eight months then ending prepared by Joseph Klein & Company, independent accountants, on a basis consistent with that applied to prior periods. Such financial statements shall reflect a net worth of at least $170,000 and net after tax earnings of not less than $70,000. In addition NSMC shall have received a separate balance sheet for each Subsidiary as at June 30, 1969.

(g) The Stockholders of NSMC shall have (i) approved an amendment to its Certificate of Incorporation increasing the number of shares of authorized Common Stock, and (ii) approved the merger transaction described herein. In addition, the number of NSMC stockholders exercising their rights as dissenting stockholders under Section 73 of the Business Corporation Act of the District of Columbia shall not have exceeded two percent of the outstanding shares of NSMC Common Stock.

(h) NSMC shall have received the charters and by-laws of the Subsidiaries certified by their respective Secretaries.

(i) The Effective Date shall be on or prior to October 31, 1969.

(j) The merger of Frommer-Pasmantier Publishing Corporation into NSMC pursuant to an Agreement and Plan of Merger dated June 11, 1969 between Frommer-Pasmantier Publishing Corporation and NSMC shall be consummated simultaneously herewith.

10. The obligation of Tours to consummate the transactions herein contemplated shall be subject to the fulfillment on or prior to the Effective Date of the following conditions:

(a) Tours shall have received from Messrs. White & Case, counsel for NSMC, at NSMC's expense, a favorable opinion, dated the Effective Date, in form and substance satisfactory to Tours and to Tours' counsel, Messrs. Lowenthal, Landau, Fischer & Weisinger to the effect that (i) NSMC is a corporation duly organized and validly existing in good standing under the laws of the District of Columbia and has the corporate power to carry on its business as then being conducted and is duly qualified and in good standing as a foreign corporation in the State of New York; (ii) New Tours is a corporation duly organized and validly existing in good standing under the laws of the State of New York; (iii) the shares of NSMC Common Stock delivered pursuant to this Agreement have been duly and validly authorized and issued and are fully paid and non-assessable; (iv) this Agreement has been duly executed and delivered by authorized officers of NSMC and is a valid obligation of NSMC legally binding upon it in accordance with its terms and any corporate action by NSMC required in order to authorize the transactions

herein contemplated has been taken; and (v) all other actions and proceedings required by law or this Agreement to be taken by NSMC at or prior to the Effective Date in connection with this Agreement and the transactions provided for herein have been duly and validly taken.

(b) No action or proceeding before a court or any other governmental agency or body shall have been instituted or threatened to restrain or prohibit the consummation of the merger and no governmental agency or body shall have taken any other action or made any request of the Stockholders or Tours or the Subsidiaries as a result of which they deem it inadvisable to proceed with the transaction.

(c) The representations and warranties of NSMC herein contained shall be true on and as of the Effective Date with the same effect as though all such representations and warranties had been made on and as of such date, subject to changes in the ordinary course of NSMC's business; each and all of the agreements of NSMC to be performed on or before the Effective Date pursuant to the terms hereof shall have been duly performed; and NSMC shall have delivered to Tours a certificate dated the Effective Date and signed by an officer of NSMC to both such effects.

(d) No material adverse change in the financial condition or business of NSMC shall have occurred and NSMC shall not have suffered any material loss or damage to any of its properties or assets, whether or not covered by insurance since February 28, 1969, which change, loss or damage materially affects or impairs the ability of NSMC to conduct its business.

(e) The Effective Date shall be on or prior to October 31, 1969.

(f) Tours shall have received from Messrs. Paul, Weiss, Goldberg, Rifkind, Wharton & Garrison an opinion to the effect that the merger contemplated hereby constitutes a reorganization within the meaning of Section 368(a)(1)(A) of the Internal Revenue Code of 1954, as amended, and that no gain will be recognized by Tours or the Stockholders for Federal income tax purposes by reason of the receipt of NSMC Common Stock pursuant to the transactions contemplated herein.

(g) The obligations under the Pre-Incorporation Agreement, dated June 21, 1967, among Tours and KLM Royal Dutch Airlines shall have been specifically assumed by NSMC.

(h) The merger of Frommer-Pasmantier Publishing Corporation into NSMC pursuant to an Agreement and Plan of Merger dated June 11, 1969 between Frommer-Pasmantier Publishing Corporation and NSMC shall be consummated simultaneously herewith.

11. The Stockholders agree jointly and severally to indemnify and hold harmless NSMC from and against all claims, liabilities, losses, costs, damages or expenses (including without limitation reasonable counsel fees incurred in litigation or otherwise) arising out of or sustained by NSMC due to any breach of any representation, warranty or agreement of Tours or the Stockholders contained herein or in any certificate, schedule, exhibit or writing relating to or delivered pursuant hereto. To the extent that any item for which NSMC claims indemnification pursuant to this paragraph 11 adversely affects New Tours After Tax Earnings so as to reduce the number of shares to be released to the Stockholders pursuant to paragraph 3(b) hereof, the obligation hereunder shall be correspondingly reduced by the aggregate value of the NSMC Common Stock (valuing such shares at the price determined in paragraph 3(b)) not delivered to the Stockholders by reason thereof. Any remaining amounts which may become due and payable to NSMC pursuant to this paragraph 11 shall next be satisfied by returning to NSMC shares of NSMC Common Stock from escrow (valuing such shares at the mean average of the bid prices for the 30 days preceding the return date or, if shares of NSMC Common Stock are then traded on a national securities exchange, at the average of the closing prices for the 30 days

preceding the return date). Any portion of any claim by NSMC under this paragraph 11 which shall thereafter remain unsatisfied shall be satisfied by returning to NSMC shares of NSMC Common Stock delivered to the Stockholders pursuant to this Agreement (valuing such shares at the mean average of the bid prices for the 30 days preceding the date on which they were received by the Stockholders or, if shares of NSMC Common Stock were then traded on a national securities exchange, at the average of the closing prices for the 30 days preceding the date on which such shares were received by the Stockholders). Thereafter NSMC may pursue any and all other rights and remedies which it may have either at law or in equity to obtain satisfaction of any such claim under this paragraph 11. NSMC shall promptly notify the Stockholders of any claim that it may have under this paragraph 11. Notwithstanding any of the provisions of this Agreement to the contrary, Tours and the Stockholders shall be liable hereunder only to the extent that such liabilities exceed $5,000.

12. (a) Each Stockholder further represents and agrees that he has not directly or indirectly offered or disposed of or attempted to offer or dispose of any of the shares of NSMC Common Stock and that he is acquiring the shares of NSMC Common Stock pursuant to this Agreement solely for investment and not with a view to the sale, distribution or other disposition thereof. The Stockholders understand that NSMC is relying upon the truth and accuracy of the foregoing representation for issuing the Common Stock to the Stockholders without first registering such NSMC Common Stock under the Securities Act of 1933. Each Stockholder will and does hereby indemnify and hold harmless NSMC against all liabilities, costs and expenses, including reasonable attorneys' fees, incurred by NSMC as a result of any sale or distribution by such Stockholder of such Common Stock in violation of such Act. All certificates representing NSMC Common Stock issued pursuant to this Agreement will contain a legend in the following form: "The transfer or pledge of the shares represented by this Certificate are subject to the provisions of an Agreement beween the holder hereof and National Student Marketing Corporation dated as of June 11, 1969."

(b) Each Stockholder agrees that, prior to any transfer or disposition of any shares of NSMC Common Stock, such Stockholder will give written notice to NSMC expressing his intention to effect such transfer or disposition and describing briefly the manner of the proposed transfer or disposition of such shares of NSMC Common Stock. Promptly upon receiving such notice, NSMC shall present copies thereof to its counsel and the provisions of the following subdivisions shall apply:

(i) If in the opinion of such counsel the proposed transfer or disposition does not require registration of such shares of NSMC Common Stock under the Securities Act of 1933, as then in force or any similar Federal statute then in force (of which opinion NSMC will notify such Stockholder as promptly as practicable) or, if such Stockholder shall have received a no-action letter from the Securities and Exchange Commission (a copy of which he shall have furnished to NSMC) such Stockholder shall upon receipt of such opinion from NSMC or upon the furnishing of such copy to NSMC, as the case may be, be entitled to transfer or dispose of such shares in accordance with the terms of the notice delivered by him to NSMC.

(ii) If in the opinion of such counsel the proposed transfer or disposition requires such registration of such shares of NSMC Common Stock, such Stockholder shall not proceed with such transfer or disposition unless and until NSMC shall have registered the same; provided, however, that NSMC shall be under no obligation to register any such shares except as hereinafter provided.

(c) In the case of any proposed registration prior to August 31, 1970 of Common Stock of NSMC on Form S-1 under the Securities Act of 1933 as then in effect or any similar Federal statute then in effect, at least 25 days prior to filing a registration statement for such stock NSMC shall send a written notice of such intended registration to each of the Stockholders by first class mail, postage prepaid, at their respective addresses appearing on the stock records of NSMC. If within 20 days after the mailing of such notice any Stockholder shall request in writing the registration

of up to 25 percent of the shares received by him pursuant hereto and held by him, NSMC shall include such shares as he shall specify in the filing of such registration and will use its best efforts to cause such registration statement to become effective as soon as practicable thereafter. In addition to the foregoing, in the case of any proposed registration in the twelve months next succeeding August 31, 1970, notice shall be similarly given and such Stockholder may request the registration of such additional shares as he may desire provided that in the aggregate he will not have disposed of in excess of 50 percent of the shares received by him pursuant hereto, NSMC shall include such shares as he shall specify in the filing of such registration and will use its best efforts to cause such registration statement to become effective as soon as practicable thereafter. Further, in the case of any proposed registration on or prior to August 31, 1973, notice shall be similarly given and such Stockholder may request the registration of such additional shares as he may desire and NSMC will include such shares as he shall specify in the filing of such registration and will use its best efforts to cause such registration statement to become effective as soon as practicable thereafter. It is understood and agreed that, in the event of any registration of shares of NSMC Common Stock pursuant to this paragraph 12(c), NSMC may delay the delivery of prospectuses to the Stockholders for a period not in excess of 60 days from the effective date of such registration statement.

(d) In the event that prior to the end of the twenty-four months next succeeding the Effective Date NSMC shall not have filed two registration statements on Form S-1, or in the alternative shall not have filed one such registration statement following which all of the Fund B Escrowed Shares are released or delivered from escrow as set forth in paragraph 13 hereof the holders of a majority of the shares of NSMC Common Stock received by the Stockholders wishing to transfer or dispose of such shares, may thereafter request in writing the registration of such shares of NSMC Common Stock. Upon receipt of any such request for registration, NSMC will, within six months thereafter, file a registration statement (at the Stockholders' expense) and will use its best efforts to cause such registration statement to become effective as soon as practicable thereafter. In the event of any registration under this paragraph 12(d) NSMC will keep such registration statement effective (except as hereinafter provided) during the period of distribution of such shares by the Stockholders, will take such action (at the Stockholders' expense) as may be required to permit sales of such shares under the securities or "Blue Sky" laws of such states or jurisdictions as the Stockholders may reasonably request, and will furnish to the Stockholders such copies as the Stockholders may reasonably request of each prospectus and each amendment or supplement thereto included in such registration statement.

(e) In the event that prior to the end of the twenty-four months next succeeding receipt by the Stockholders of the last Escrowed Shares to be released under the Escrow Agreement, NSMC shall not have filed a Registration Statement on Form S-1 in which the Stockholders have had an opportunity to participate, the holders of a majority of the shares of NSMC Common Stock received by the Stockholders wishing to transfer or dispose of such shares, may thereafter request in writing the registration of such shares of NSMC Common Stock. Upon receipt of any such request for registration, NSMC will, within twelve months thereafter, file a registration statement (at the Stockholders' expense) and will use its best efforts to cause such registration statement to become effective as soon as practicable thereafter. In the event of any registration under this paragraph 12(e) NSMC will keep such registration statement effective (except as hereinafter provided) during the period of distribution of such shares by the Stockholders, will take such action (at the Stockholders' expense) as may be required to permit sales of such shares under the securities or "Blue Sky" laws of such states or jurisdictions as the Stockholders may reasonably request, and will furnish to the Stockholders such copies as the Stockholders may reasonably request of each prospectus and each amendment or supplement thereto included in such registration statement.

(f) In the event of any registration pursuant to this paragraph 12, NSMC shall indemnify such Stockholders against all losses, claims, damages and liabilities caused by any untrue statement

of a material fact contained in the registration statement or prospectus (and as amended or supplemented if NSMC shall have furnished any amendments or supplements thereto), or caused by any omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except in so far as such losses, claims, damages or liabilities are caused by any untrue statement of a material fact contained in, or any material fact omitted from, information furnished in writing to NSMC by any Stockholder expressly for use therein. It shall be a condition precedent to any right of registration under this paragraph 12 that each Stockholder requesting registration shall furnish to NSMC in writing such information as shall be reasonably requested by NSMC for use in any such registration statement or prospectus and shall agree in writing to indemnify NSMC, its directors and officers, and each person, if any, who controls NSMC within the meaning of Section 15 of the Securities Act of 1933, as amended, and any underwriter for NSMC against all losses, claims, damages and liabilities caused by any untrue statement of a material fact contained in, or any material fact omitted from, information so furnished in writing by such Stockholder. The expenses in connection with any registration under paragraphs 12(d) and (e) including, without limitation, registration fees, printing costs and fees and disbursements of counsel and independent accountants, shall be borne by the persons or entities registering stock thereunder in the same proportion as the number of shares being registered by each bears to the total number of shares being registered. The expenses relating to any registration statements referred to in paragraph 12(c) including, without limitation, registration fees, printing costs and fees and disbursements of counsel and independent accountants shall be borne by NSMC. NSMC shall not be required to maintain a current prospectus more than nine months (or such longer period as may be mutually agreed upon) after the date of filing any registration statement pursuant to this paragraph 12.

(g) Notwithstanding the foregoing provisions of this paragraph 12 each Stockholder agrees that he will not dispose of any shares of NSMC Common Stock if in the opinion of NSMC's independent public acountants, Peat, Marwick, Mitchell & Co., or a comparable national accounting firm such disposition will result in the accounting treatment of the transaction contemplated by this Agreement being other than a "pooling of interests".

13. In the event that any shares are registered and sold pursuant to paragraph 12(c) or 12(d) hereof at a price per share which is less than $43, Fund B Escrowed Shares will be released to the Stockholders, the number of such shares so released being determined by multiplying the difference between $43 and such public offering price by the number of shares to be sold and dividing that product by the public offering price. For the purposes of the calculations provided for in this paragraph 13, the public offering price shall be the price received by the Stockholders from an underwriter if an underwriter is involved or shall be the average of the closing bid prices as reported by the National Quotation Bureau Incorporated for the fourteen trading days after the delivery of a prospectus to the Stockholders or if the NSMC Common Stock shall be at the time listed on a national stock exchange then the average of the closing prices of such stock for the 14 trading days after the delivery of a prospectus if no underwriter is involved. To the extent that any registration is filed pursuant to the provisions of paragraph 12(c) hereof and the Stockholders elect not to participate in such registration, the number of shares covered by this paragraph 13 shall be reduced by the number of shares which would have been received had the shares been registered at a price less than $43. In addition in the event that at the time of any such registration the price of the NSMC Common Stock is in excess of $43 per share, the number of shares covered by this paragraph 13 shall be reduced by the number of shares equal in value to the public offering price of such registration multiplied by the number of shares registered or which could have been registered by the Stockholders at such time divided by $43.

14. The representations, warranties and agreements of the parties made herein shall survive the consummation of the transactions contemplated by this Agreement and shall remain in full

force and effect thereafter for a period of three years and one month. It is understood and agreed that the liability of the Stockholders as among themselves with respect to representations, warranties and agreements contained in this Agreement shall be in proportion to the shares of NSMC Common Stock received by them pursuant to the provisions of this Agreement.

15. From and after the Effective Date none of the Stockholders shall (except those continuing in the employ of New Tours and in the case of such Stockholders none of them shall subsequent to the termination of their employ) retain in any manner or form any customer lists or other confidential written information, trade secrets or innovations of any kind relating to the business of Tours nor will any of such Stockholders divulge at any time any such customer lists or written confidential information or other confidential information to persons other than directors, officers or employees of New Tours, NSMC or its subsidiaries.

16. Any notice or communication required or permitted hereunder shall be sufficiently given if sent by first class mail, postage prepaid, and if to the Stockholders addressed to each at the address on the stock transfer records maintained by NSMC's Transfer Agent, with a copy thereof to Messrs. Lowenthal, Landau, Fischer & Weisinger, 250 Park Avenue, New York, New York; and if to NSMC, addressed to it 345 Park Avenue, New York, New York 10017, marked for the attention of the Secretary, with a copy thereof to Messrs. White & Case, 14 Wall Street, New York, New York 10005.

17. This Agreement and the rights of the Stockholders hereunder may not be assigned (except by operation of law) and shall be binding upon and shall inure to the benefit of the parties hereto and successors of NSMC and Tours.

18. This Agreement and the Exhibits hereto and the documents delivered pursuant hereto constitute the entire agreement and understanding among the Stockholders, Tours and NSMC and supersedes any prior agreement and understanding relating to the subject matter of this Agreement.

19. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

20. Whether or not the transaction herein contemplated shall be consummated, NSMC will pay the fees, expenses and disbursements of NSMC and its counsel in connection with the subject matter of this Agreement and any amendments thereto and all other costs and expenses incurred by NSMC in performance and compliance with all conditions to be performed by it under this Agreement. In addition, Tours or New Tours will pay directly to Lowenthal, Landau, Fischer & Weisinger the first $15,000 of legal fees, expenses and disbursements incurred by Tours in connection with the subject matter of this Agreement and any amendments thereto. All other costs or expenses in excess of the first $15,000 of legal fees shall be the obligation of the Stockholders.

21. This Agreement shall be construed and interpreted in accordance with the laws of the State of New York.

22. Anything herein to the contrary notwithstanding and notwithstanding any stockholder vote of approval of this Agreement and the merger provided herein, this Agreement may be terminated and abandoned by mutual consent of the Board of Directors of both NSMC and Tours at any time prior to the Effective Date.

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Government's Exhibit 25

IN WITNESS WHEREOF, Tours and NSMC have caused their corporate names to be hereunto subscribed and their corporate seals to be hereunto affixed by their officers thereunto duly authorized the day and year first above written.

NATIONAL STUDENT MARKETING CORPORATION

By CORTES W. RANDELL

President

[Corporate Seal]

ATTEST:

JOHN GLANDON DAVIES

Secretary

[Corporate Seal]

FIVE-DOLLAR-A-DAY TOURS, INC.

By ARTHUR FROMMER

ATTEST:

ELLIOTT S. KANBAR

Secretary

Confirmed and agreed to this 11th day of June 1969.

STOCKHOLDERS

ARTHUR FROMMER

Arthur Frommer

ELLIOTT S. KANBAR

Elliott S. Kanbar

JULES KLAR

Jules Klar

EDWARD J. LANDAU

Edward J. Landau

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Government's Exhibit 25

EXHIBIT A-1

ARTICLES OF MERGER

Pursuant to Sections 68 and 71 of the District of Columbia Business Corporation Act, the undersigned hereby certify:

(1) A conformed copy of the Agreement and Plan of Merger between National Student Marketing Corporation ("NSMC") and Five-Dollar-a-Day Tours, Inc. ("Tours") dated June 11, 1969 is attached hereto as Exhibit A and incorporated herein by reference.

(2) The authorized capital stock of NSMC consists of shares of Common Stock, par value $.025 per share, of which shares are issued and outstanding.

(3) The authorized capital stock of Tours consists of 200 shares of Common Stock, without par value, of which 105 shares are issued and outstanding.

(4) The shareholders of NSMC, a District of Columbia corporation, approved and adopted the Agreement and Plan of Merger at a Special Meeting of Shareholders held on , 1969. The results of the vote were as follows:

For the Plan	Against the Plan
Shares	Shares

(5) The shareholders of Tours, a New York corporation, approved and adopted the Agreement and Plan of Merger at a Special Meeting of Shareholders held on June , 1969. The results of the vote were as follows:

For the Plan	Against the Plan
Shares	Shares

IN WITNESS WHEREOF, these articles have been signed this day of , 1969.

NATIONAL STUDENT MARKETING CORPORATION

By .....
President

[Corporate Seal]

ATTEST:

By .....
Secretary

FIVE-DOLLAR-A-DAY TOURS, INC.

By .....
President

[Corporate Seal]

ATTEST:

By .....
Secretary

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Government's Exhibit 25

EXHIBIT A-2

CERTIFICATE OF MERGER

OF

FIVE-DOLLAR-A-DAY TOURS, INC.

AND

NATIONAL STUDENT MARKETING CORPORATION

INTO

NATIONAL STUDENT MARKETING CORPORATION

(Under Section 907 of the Business Corporation Law)

The undersigned hereby certify:

(1) The name of the constituent corporation to be merged is Five-Dollar-a-Day Tours, Inc., ("Tours") and the name of the surviving corporation is National Student Marketing Corporation ("NSMC").

(2) The outstanding capital stock of NSMC consists of shares of voting Common Stock, par value $.025 per share. The outstanding capital stock of Tours consists of 200 shares of voting Common Stock, without par value.

(3) The Agreement and Plan of Merger was approved by the Board of Directors of Tours at a meeting held on , 1969 and authorized by vote of the holders of two-thirds of all outstanding shares of Tours entitled to vote at a Special Meeting of Shareholders held on June , 1969.

(4) The Agreement and Plan of Merger was approved by the Board of Directors and the Shareholders of NSMC in compliance with the applicable provisions of the laws of the District of Columbia. The laws of the District of Columbia permit the merger herein effected.

(5) The Certificate of Incorporation of Tours, a domestic corporation, was filed by the Department of State on November 29, 1961. NSMC, the surviving corporation, was incorporated under the laws of the District of Columbia on May 20, 1966. It filed its application for authority to do business in the State of New York on April 3, 1968.

(6) NSMC hereby agrees that NSMC may be served with process in New York in any action or special proceeding for the enforcement of any liability or obligation of any constituent corporation previously amenable to suit in New York and for the enforcement under the Business Corporation Law of the right of shareholders of any constituent corporation to receive payment for their shares against NSMC as the surviving corporation.

(7) NSMC agrees that subject to the provisions of Section 623 of the Business Corporation Law, it will promptly pay to the shareholders of Tours the amount, if any, to which they shall be entitled under the provisions of the Business Corporation Law relating to the rights of shareholders to receive payment for their shares.

(8) NSMC hereby designates the Secretary of State as its agent upon whom process against it may be served in the manner set forth in paragraph (b) of Section 306 of the Business Corpora-

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tion Law in any action or special proceeding described in paragraph (6) hereof. The Secretary of State shall mail a copy of any such process to the following address:

National Student Marketing Corporation
1100 Connecticut Avenue N.W.
Washington, D.C.

(9) The Plan of Merger has not been abandoned.

Dated, , 1969

NATIONAL STUDENT MARKETING CORPORATION

By .....
President

.....
Secretary

FIVE-DOLLAR-A-DAY TOURS, INC.

By .....
President

.....
Secretary

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EXHIBIT B

ESCROW AGREEMENT

AGREEMENT, dated October , 1969 among NATIONAL STUDENT MARKETING CORPORATION, a District of Columbia corporation ("NSMC"); ARTHUR FROMMER, ELLIOTT KANBAR, JULES KLAR and EDWARD J. LANDAU (collectively the "Stockholders"), the holders of all of the outstanding capital stock of FIVE-DOLLAR-A-DAY TOURS, INC., a New York corporation ("Tours"); and THE RIGGS NATIONAL BANK OF WASHINGTON (the "Escrow Agent");

WHEREAS, Tours has this day merged into and with NSMC receiving in exchange shares of NSMC Common Stock and whereas the agreement reflecting such transaction provides that a portion of the shares of NSMC Common Stock to be delivered to the Stockholders be deposited by them with an Escrow Agent subject to the terms and conditions of an Escrow Agreement; and

WHEREAS, the parties hereto have agreed upon and wish to set forth herein the terms and conditions of said Escrow Agreement with respect to the shares of NSMC Common Stock to be so delivered to and held by the Escrow Agent:

NOW, THEREFORE, it is agreed as follows:

1. *Escrow Agent.* The Escrow Agent has agreed to act as such Escrow Agent in furtherance of the provisions of an Agreement and Plan of Merger, dated as of June 11, 1969 (the "Merger Agreement"), among NSMC, Tours and the Stockholders, upon the terms, conditions and provisions provided in this Escrow Agreement.

2. *Escrow of NSMC Shares.* The Stockholders hereby designate and appoint The Riggs National Bank of Washington, as Escrow Agent to serve in accordance with the terms of this Escrow Agreement. Each of the Stockholders hereby agrees to deposit in escrow with the Escrow Agent on the Effective Date provided for in the Merger Agreement the shares of NSMC Common Stock, par value $.025 per share, listed in Columns A and B opposite his name on the signature page hereto (the Column A shares being herein the "Fund A Escrowed Shares" and the Column B shares being herein the "Fund B Escrowed Shares"), issued and delivered by NSMC to such Stockholders on such Effective Date; such shares are represented by stock certificates registered in the names of the respective Stockholders and accompanied by stock powers duly signed in blank, with signatures guaranteed by a bank, trust company or member firm of the New York Stock Exchange.

3. *Purpose of the Escrow.* (a) To the extent herein provided, the Stockholders hereby indemnify and hold harmless NSMC against and in respect of any "Loss" or "Earnings Deficiency" (as defined in this paragraph 3) which is certified to the Escrow Agent in accordance with paragraph 4 hereof. The Fund A Escrowed Shares shall, subject to the terms and conditions of this Escrow Agreement and subject to the payout provisions of paragraph 3(b) of the Merger Agreement, be applied to indemnify and hold harmless NSMC against and in respect of the entire amount of such Loss or Earnings Deficiency. As used in this Escrow Agreement, the term "Loss" shall mean the amount of any loss, liability or reasonable and actual expense incurred by NSMC as a result of any misrepresentation or breach of warranty of Tours or the Stockholders contained in the Merger Agreement, and the term "Earnings Deficiency" shall mean, with respect to the Fund A Escrowed Shares, the dollar value of any shares not released pursuant to paragraph 3(b) of the Merger Agreement.

(b) To the extent herein provided, NSMC hereby indemnifies the Stockholders against any "Decline in Market Value" of one half of the shares of NSMC Common Stock delivered to the Stockholders on the Effective Date. A Decline in Market Value shall have occurred when any

of the shares are registered and sold pursuant to paragraph 12(c) or 12(d) of the Merger Agreement at a price per share which is less than $43. Upon the occurrence of a Decline in Market Value, Fund B Escrowed Shares will be released to the Stockholders, the number of such shares being determined by multiplying the difference between $43 and the public offering price by the number of shares to be sold and dividing that product by the public offering price. For the purposes of the calculations provided for in this paragraph 3(b), the public offering price shall be, in the event of an underwritten public offering, the price received by the Stockholders in connection therewith, or in the event that no underwriter is involved, the average of the closing bid prices of the NSMC Common Stock as reported by the National Quotation Bureau Incorporated for the 14 trading days next succeeding the delivery of a prospectus to the Stockholders or if the NSMC Common Stock shall be at the time listed on a national stock exchange then the average of the closing prices of such stock for the 14 trading days after the delivery of a prospectus to the Stockholders. To the extent that any registration is filed pursuant to the provisions of paragraph 12(c) of the Merger Agreement and the Stockholders elect not to participate in such registration, the number of Fund B Escrowed Shares shall be reduced by the number of shares which would have been received had the shares been registered at a price less than $43. In addition in the event that at the time of any such registration the price of the NSMC Common Stock is in excess of $43 per share, the number of shares covered in this paragraph 3(b) shall be reduced by the number of shares equal in value to the public offering price of such registration multiplied by the number of shares registered or which could have been registered by the Stockholders at such time divided by $43. Such Fund B Escrowed Shares shall be returned to NSMC.

4. *Certification of Loss, Earnings Deficiency or Decline in Market Value to Escrow Agent.*

(a) If NSMC is of the opinion that any Loss has occurred, and desires to have Fund A Escrowed Shares applied thereto pursuant to this Escrow Agreement, NSMC shall promptly so notify the Stockholders in writing at the address provided in paragraph 13 hereof and shall transmit a copy of such notice to the Escrow Agent. Any such notice shall contain a detailed statement specifying the circumstances and computation of such asserted Loss. Notice of any claim of Loss with respect to the Fund A Escrowed Shares must be given on or prior to October 31, 1972.

(b) The amount of any Loss asserted by NSMC by notice given pursuant to subparagraph 4(a) hereof and the number of Fund A Escrowed Shares, if any, to be returned to NSMC pursuant to paragraph 5 hereof shall be certified to the Escrow Agent in writing jointly by NSMC and the Stockholders if they agree on said amount and number, but if they cannot so agree within a period of 30 days after notice is given pursuant to subparagraph 4(a) hereof, either NSMC or the Stockholders shall be entitled within 30 days after such notice to direct submission of the matter in disagreement to arbitration in accordance with the rules and regulations of the American Arbitration Association. The arbitration shall be conducted by three arbitrators selected by such Association in accordance with its rules and regulations. NSMC and the Stockholders shall promptly notify the Escrow Agent of such submission to arbitration. As promptly as possible thereafter the arbitrators shall certify to the Escrow Agent, and to NSMC and the Stockholders, that there is no Loss, or, if there is a Loss, the amount thereof and the number of shares to be returned to NSMC pursuant to paragraph 5 hereof. Such certification shall contain a detailed statement specifying the circumstances and computation of any Loss. The determination of the arbitrators as to the amount of the Loss and the number of Fund A Escrowed Shares to be returned to NSMC, if any, shall be conclusive and binding upon the Stockholders and NSMC. Such determination may be deferred pending the time when any Loss which is uncertain or contingent becomes fixed. The expenses of each party, including legal and accounting fees, if any, with respect to any disagreement hereunder shall be borne by such party. If the matter is submitted to arbitration, the arbitrators shall designate the party or parties to bear the other expenses of such determination and/or the respective amounts to be borne by each.

(c) If an Earnings Deficiency has occurred, the Fund A Escrowed Shares shall be returned to NSMC promptly upon certification that an Earnings Deficiency has occurred to the Escrow Agent in writing jointly by NSMC and the Stockholders if they agree that such Earnings Deficiency has occurred. However, if they cannot so agree within a period of 120 days after October 31, 1972, either NSMC or the Stockholders shall be entitled to direct submission of such claim of an Earnings Deficiency to arbitration in accordance with the rules and regulations of the American Arbitration Association. The arbitration shall be conducted by three arbitrators selected by such Association in accordance with its rules and regulations. NSMC and the Stockholders shall promptly notify the Escrow Agent of such submission to arbitration. As promptly as possible thereafter, the arbitrators shall certify to the Escrow Agent, and to NSMC and the Stockholders, either that an Earnings Deficiency has occurred or that an Earnings Deficiency has not occurred. Such certification shall contain a detailed statement specifying the facts and circumstances upon which the arbitrators relied, and the computations which the arbitrators made, in reaching their determination. The determination of the arbitrators shall be conclusive and binding upon NSMC and the Stockholders. The expenses of each party, including legal and accounting fees, if any, with respect to any disagreement hereunder shall be borne by such party. If the matter is submitted to arbitration, the arbitrators shall designate the party or parties to bear the expenses of such determination and/or the respective amounts to be borne by each.

(d) If a Decline in Market Value has occurred, the applicable number of Fund B Escrowed Shares shall be released to the Stockholders promptly upon certification that a Decline in Market Value has occurred to the Escrow Agent in writing jointly by NSMC and the Stockholders.

(e) In connection with any asserted Loss or Earnings Deficiency, NSMC will, or will cause its new Tours subsidiary to make available to the Stockholders, their counsel and accountants such records as they may reasonably request pertaining to such asserted Loss or Earnings Deficiency.

5. *Number of Shares Returnable to NSMC in the Event of Loss, Earnings Deficiency or Decline in Market Value.*

(a) Upon determination pursuant to the provisions of paragraph 4 hereof of the amount of any Loss, such amount shall be divided by the then market price of the shares, determined as set forth in paragraph 11 of the Merger Agreement and the resulting figure (rounded to the nearest whole number) shall be the number of Fund A Escrowed Shares to be returned to NSMC in respect of such Loss pursuant to the provisions of this Escrow Agreement (the "Returned Shares").

(b) Upon determination pursuant to the provisions of paragraph 4 hereof of an Earnings Deficiency, all remaining Fund A Escrowed Shares shall be returned to NSMC.

(c) The manner of determining the number of Fund B Escrowed Shares to be delivered to the Stockholders or returned to NSMC is as set forth in paragraph 3(b) hereof.

6. *Delivery of Escrowed Shares to Stockholders; Return of Escrowed Shares to NSMC.*

(a) The Fund A Escrowed Shares shall, unless theretofore returned to NSMC to indemnify NSMC against a Loss, be released to the Stockholders from time to time upon receipt by the Escrow Agent of the accountants' report provided for in Exhibit C of the Merger Agreement and notice from NSMC and the Stockholders confirming agreement with such report. Adjustments to such report after the release of shares hereunder as may result from facts learned subsequent to the release date, shall be carried forward as a debit or credit toward shares yet to be released.

(b) In the event that the Escrow Agent shall not have received on or prior to October 31, 1972 a copy of any notice of a Loss or Earnings Deficiency asserted by NSMC pursuant to the provisions of paragraph 4 hereof (which Loss, if a Loss is asserted, has not been satisfied prior to such date), then promptly after such date the Escrow Agent shall deliver the Fund A Escrowed Shares to the Stockholders. In the event that NSMC shall assert any Loss hereunder on or prior to October 31, 1972, then the Escrow Agent shall deliver to the Stockholders only the number of Escrowed Shares in excess of the number of shares claimed by NSMC. Promptly following

the making of the final computation pursuant to paragraph 5 hereof and the certification thereof to the Escrow Agent pursuant to subparagraph 4(b) hereof, the Escrow Agent shall deliver to NSMC, for immediate cancellation only, the Returned Shares, and shall deliver to the Stockholders the balance of the Fund A Escrowed Shares. Such deliveries shall be effected by the surrender by the Escrow Agent to NSMC of the stock certificates then in its possession representing Fund A Escrowed Shares, accompanied by any stock powers pertaining thereto, whereupon NSMC shall promptly issue to the Escrow Agent a new stock certificate registered in the names of the Stockholders for the number of Fund A Escrowed Shares then remaining in escrow as reduced by the number of Returned Shares, and the Escrow Agent shall retain such new stock certificates subject to the terms of this Escrow Agreement.

(c) Anything to the contrary notwithstanding, in the event that NSMC shall assert an Earnings Deficiency hereunder on or prior to October 31, 1972, the Escrow Agent shall not deliver any Fund A Escrowed Shares to the Stockholders unless and until the Escrow Agent has received, either from NSMC and the Stockholders jointly or from the arbitrators, certification that an Earnings Deficiency has not occurred. Upon receipt of certification that an Earnings Deficiency has not occurred, the Escrow Agent shall deliver the Fund A Escrowed Shares in accordance with the provisions of paragraph 6(b) above. However, upon receipt of certification that an Earnings Deficiency has occurred, the Escrow Agent shall deliver all the remaining Fund A Escrowed Shares to NSMC for immediate cancellation.

(d) Anything to the contrary notwithstanding, the Escrow Agent shall not deliver any Fund B Escrowed Shares to the Stockholders unless and until the Escrow Agent has received from NSMC and the Stockholders joint certification that a Decline in Market Value has occurred. Upon receipt of certification that a Decline in Market Value has occurred, the Escrow Agent shall deliver the Fund B Escrowed Shares to the Stockholders proportionately as their interests appear in such certificate. In the event that no certification of a Decline in Market Value has been received on or prior to 42 months from the Effective Date of the Merger, the Escrow Agent shall deliver all Fund B Escrowed Shares to NSMC for immediate cancellation.

7. *Adjustment in Shares to Reflect Stock Dividends, Split-Up or Other Recapitalization.* In the event that, prior to any delivery of Escrowed Shares out of escrow by the Escrow Agent in accordance with the terms hereof, the outstanding shares of NSMC Common Stock shall have been without due consideration, increased, decreased, changed into or exchanged for a different number or kind of shares or securities through reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split, or other like changes in NSMC's capitalization, then notice of such change will be given to the Escrow Agent and an appropriate and proportionate adjustment shall be made in the number and kind of shares of NSMC Common Stock to be thereafter delivered hereunder.

8. *Right of Stockholders to Defend Claims.* The Stockholders shall at their expense have the opportunity to be represented by counsel of their choice in connection with the defense of any action, suit, proceeding, demand or claim brought against NSMC in respect of which NSMC may be entitled to indemnification pursuant to paragraph 3 hereof. If the Stockholders elect to exercise this right and give notice to NSMC conceding NSMC's right to such indemnification, their counsel shall have control over the prosecution of the defense of said action, suit, proceeding, demand or claim. If after such opportunity the Stockholders or their counsel do not participate in such proceedings, they shall be bound by the results obtained by NSMC. NSMC shall give prompt written notice of any such claim to the Stockholders at the address contained in the Merger Agreement. In connection with any defense or consideration of defense by the Stockholders of any claim referred to hereinabove in this paragraph, NSMC will make available to the Stockholders, their counsel and accountants such records as they may reasonably request pertaining to said claim.

9. *Voting Rights, Dividend, etc.* Pending the delivery of Escrowed Shares out of escrow pursuant to the provisions of paragraph 6 hereof, the Stockholders may exercise all voting rights with

respect to the Escrowed Shares and may receive the benefit of all dividends and other distributions with respect thereto; provided, however, that any shares which are issued as stock dividends or in a split-up or other recapitalization of NSMC with respect to Escrowed Shares shall be deposited by the Stockholders as additional Escrowed Shares. All dividends paid on Returned Shares out of the Fund A Escrowed Shares shall be repaid to NSMC by the Stockholders.

10. *Fees.* The Stockholders agree to pay the Escrow Agent for its services hereunder such reasonable fee as may be customarily charged for such services by banks in Washington, D. C. up to a maximum of $750. In the event that such fee exceeds $750 in any single year, NSMC will be obligated to reimburse the Stockholders for such excess.

11. *Responsibilities of Escrow Agent.* The acceptance by the Escrow Agent of its duties under this Escrow Agreement is subject to the following terms and conditions, which the parties to this Escrow Agreement hereby agree shall govern and control with respect to its rights, duties, liabilities and immunities:

(a) The Escrow Agent shall act hereunder as depositary only, and it shall not be responsible or liable in any manner whatever for the computations to be made in accordance with the formula stated in paragraph 5 hereof nor for the sufficiency, correctness, genuineness or validity of any security deposited with it.

(b) The Escrow Agent shall be protected in acting upon any written notice, request, waiver, consent, receipt or other paper or document furnished to it, not only as to its due execution and the validity and effectiveness of its provisions but also as to the truth and acceptability of any information therein contained, which it in good faith believes to be genuine and what it purports to be.

(c) The Escrow Agent shall not be liable for any error of judgment, or for any act done or step taken or omitted by it in good faith, or for any mistake of fact or law, or for anything which it may do or refrain from doing in connection herewith, except its own negligence or misconduct.

(d) The Escrow Agent may consult with, and obtain advice from, legal counsel in the event of any question as to any of the provisions hereof or its duties hereunder, and it shall incur no liability and shall be fully protected in acting in good faith in accordance with the opinion and instructions of such counsel. The cost of such services shall be added to and be a part of the Escrow Agent's fee hereunder.

(e) The Escrow Agent shall have no duties except those which are expressly set forth herein, and it shall not be bound by any notice of a claim, or demand with respect thereto, or any waiver, modification, amendment, termination or rescission of this Escrow Agreement, unless in writing received by it, and, if its duties herein are affected, unless it shall have given its prior written consent thereto.

12. *Amendment and Termination.* This Escrow Agreement may be amended or cancelled by and upon written notice to the Escrow Agent at any time given jointly by NSMC and the Stockholders, but the duties or responsibilities of the Escrow Agent may not be increased without its consent.

13. *Notices.* Any notices or other communications required or permitted hereunder shall be sufficiently given if sent by registered or certified mail, postage prepaid, if to the Stockholders addressed to them at their addresses as set forth on the stock transfer records of NSMC's Transfer Agent, with a copy thereof to Messrs. Lowenthal, Landau, Fischer & Weisinger, 250 Park Avenue, New York, New York; if to NSMC addressed to it at 345 Park Avenue, New York, New York, marked for the attention of the Secretary, with a copy thereof to Messrs. White & Case, 14 Wall Street, New York, New York 10005; and if to the Escrow Agent addressed to it at 1503 Pennsylvania Avenue, N. W., Washington, D. C. marked for the attention of the Escrow Department; or in any

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case to such other address as shall be furnished in writing by such party. Such notices or other communications so given shall be deemed to have been given on the date so mailed.

14. *Parties in Interest.* This Escrow Agreement shall be binding upon and inure to the benefit of the respective heirs, legal representatives, successors and assigns of the parties hereto.

15. *Execution by Escrow Agent.* The execution of this Escrow Agreement by the Escrow Agent shall constitute a receipt for the Escrowed Shares and shall evidence its acceptance and agreement to the terms hereof.

IN WITNESS WHEREOF, the parties hereto have duly caused this Escrow Agreement to be executed as of the date first above written.

NATIONAL STUDENT MARKETING CORPORATION

By .....
President

[Corporate Seal]

Attest:

.....
Secretary

RIGGS NATIONAL BANK OF WASHINGTON

By .....
Trust Officer

[Corporate Seal]

Attest:

.....
Assistant Secretary

	Column A	Column B
	No. of NSMC Shares Placed in Fund A Escrow	No. of NSMC Shares Placed in Fund B Escrow
Arthur Frommer		
Elliott Kanbr		
Jules Klar		
Edward J. Landau		

6 (1.76)

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EXHIBIT C

DETERMINATION OF AFTER TAX EARNINGS

I. For purposes of this Agreement, the "After Tax Earnings" of New Tours shall include the After Tax Earnings of New Tours, the Subsidiaries, any future subsidiaries of New Tours, joint venture arrangements participated in by New Tours to the extent of such participations and Frommer-Pasmantier Publishing Corporation (herein collectively "Tours") with respect to each of the years ending October 31, 1970, through October 31, 1972, inclusive, shall be determined in the following manner:

1. There shall first be determined the gross earnings of Tours for such year, by application of the accrual method of accounting, and generally accepted principles of accounting as reflected in the October 31, 1968 financial statements of Tours in arriving at gross income for accounting purposes. There shall be included Tours pro rata share of earnings derived from its investments in hotel operations even though the same might not otherwise have been included in a consolidated statement. There shall, however, be excluded any extraordinary item of income derived from any transaction not in the ordinary course of Tours' business.

2. There shall then be determined the "expenses" of Tours for such year, which shall consist of "current expenses", "allocable capital expenditures" and "extraordinary losses."

(a) For this purpose, "current expenses" shall consist of those expenses incurred by Tours which are allocable to the year pursuant to the accrual method of accounting and pursuant to generally accepted principles of accounting consistently applied in arriving at net income for accounting purposes, subject to the following provisions and exceptions:

(i) Current expenses shall include:

A. The usual operating, selling, and general administrative expenses incurred by Tours applicable to income earned in the same period, and shall exclude prepaid expenses of any project the income of which is to be realized in a subsequent period except that portion applicable to the current year according to generally accepted accounting principles, and start-up expenses of new programs the cost of which is to be amortized over a 3-year or more period following the period the expense was incurred except that portion applicable to the current year according to generally accepted accounting principles (unless the program is discontinued, in which event the balance of the unamortized expense is to be written off in the fiscal year the program is discontinued);

B. The aggregate amount of all taxes (other than Federal and applicable state income taxes) imposed on Tours with respect to the particular year;

C. The amount of interest on funds borrowed by Tours from NSMC, computed at the prime rate as shall be charged by First National City Bank during the period of the loan, or the actual cost to NSMC (including the actual cost of maintaining balances) if it pays more interest during the period of the loan. Interest shall not be charged on borrowings by Tours, as hereinabove defined, from NSMC up to an amount equal to the total of any monies, securities or other assets transferred from Tours, as hereinabove defined, to NSMC and not repaid;

D. The cost to NSMC of any services, exclusive of general or administrative expenses, performed for or on behalf of Tours, at the written request of the President of Tours, by NSMC or any of its divisions or departments, except that commercial items (advertising, etc.) will be sold to Tours at the same price or rates and subject to the same discounts as contemporaneously apply to such sales to other divisions and departments of NSMC.

(ii) Current expenses shall reflect such charges and credits to reserve accounts with respect to Accounts and Notes Receivable, uninsured casualty losses, inventory or any other assets (other than capital or fixed assets) as shall be deemed necessary in the light of the actual experience of Tours.

(iii) Current expenses for this purpose shall not include any allocation of general or administrative expense of NSMC or any subsidiary or affiliate thereof.

(b) For this purpose "allocable capital expenditures" shall constitute the "capital expenditures" of Tours allocable to the particular calendar year pursuant to the following principles:

(i) capital expenditures made by Tours in connection with the acquisition of property which under the Federal income tax laws would constitute depreciable property shall be depreciated on a straight-line basis over the useful life which would be assigned to such property under the so-called guidelines promulgated by the Internal Revenue Service in Revenue Procedure 62-21, as amended.

(ii) capital expenditures made by Tours in connection with its acquisition of the right to the use of property for a limited and determinable period of time shall be amortized in equal installments over such period of time.

(iii) After Tax Earnings shall be computed consistent with the present accounting policies employed by Tours. In the way of example but not by way of limitation, After Tax Earnings shall not be affected by any adjustment in the value of assets which are on the books of Tours or by any change in the depreciation policy or capitalizing (rather than expensing) policy of Tours or the method of calculating depreciation, or the number of years over which a capital asset is depreciated.

(c) For this purpose, "extraordinary losses" shall consist of all losses not incurred in the ordinary conduct of the business of Tours.

3. There shall then be subtracted from the gross earnings of Tours for the particular fiscal year, as determined pursuant to Section I:1 hereof, the "expenses" of Tours for such year, as determined pursuant to Section I:2 hereof, and the difference shall constitute the "net before tax earnings" of such year.

4. There shall then be determined the amount of Federal and applicable state income taxes which would be imposed on Tours computed separately as if the net before tax earnings, as determined pursuant to Section I:3 hereof, constituted the actual taxable income of Tours for such fiscal year. The computation shall be made as if separate returns were filed, and for Federal purposes, as though Tours will have made the election under Section 1562(a) of the Internal Revenue Code of 1954 as now in effect. Tours shall be credited with any benefits accruing by reason of the investment tax credit provided under Section 38 of such Code.

5. There shall be subtracted from the net before tax earnings, as determined pursuant to Section I:3 hereof, the total amount of such Federal and applicable state income taxes, as determined pursuant to Section I:4 hereof. The difference shall constitute the after tax earnings for such year for each of the entities constituting Tours as hereinabove defined, and the sum thereof shall constitute the "After Tax Earnings" hereunder.

6. In the event the expenses for any particular year, as determined under Section I:2 hereof, shall exceed in amount the gross earnings for such year, as determined under Section I:1 hereof, the amount of such excess shall carry forward to the next fiscal year, and shall be added to and treated as part of the expenses of that year for purposes of Section I:2 hereof, provided, however, that the amount to be carried forward shall be adjusted to reflect any tax benefits accruing to NSMC as a result thereof.

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II. A computation of the "After Tax Earnings" for each of the fiscal years during the period 1970-72 will be prepared in accordance with the foregoing principles by a national firm of public accountants as shall be designated by the Stockholders. Such computation, or any recomputation under paragraph I(4) above, shall include the number of shares to be issued pursuant to paragraph 3(b) of the Agreement.

III. In the event that NSMC disagrees as to any portion of such computation or the application of the aforesaid principles to the determination of the "After Tax Earnings" for any particular year, and that such disagreement cannot be settled within 30 days after submission of the report, the portion in disagreement shall be determined by such independent firm of certified public accountants as shall be mutually agreed upon by NSMC and the Stockholders, or if they cannot reach such agreement promptly, then, upon the demand of any interested party by the firm of Price Waterhouse & Co., unless it is then the accounting firm for NSMC, in which event such firm shall be Arthur Young & Co. Such determination shall be final and binding upon the parties hereto.

IV. Notwithstanding anything in this Exhibit C to the contrary, for the purposes of determining the aggregate After Tax Earnings for the thirty-six months ended October 31, 1972 as provided in the first clause next succeeding subparagraph (iii) of paragraph 3(b) of the Agreement, there shall be credited against any extraordinary losses determined for such period, any extraordinary gains not otherwise included in the calculations pursuant to this Exhibit C.

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SCHEDULE E

AGREEMENT AND PLAN OF MERGER dated the 11th day of June, 1969 by and among NATIONAL STUDENT MARKETING CORPORATION, a District of Columbia corporation ("NSMC"), and FROMMER-PASMANTIER PUBLISHING CORPORATION, a New York corporation ("FPP").

WITNESSETH:

WHEREAS, the respective Boards of Directors of NSMC and FPP deem it advisable for the general welfare and advantage of the respective corporations and their shareholders that FPP be merged into NSMC pursuant to this Agreement and the applicable laws of the District of Columbia and the state of New York; and

WHEREAS, to effect such merger FPP will be merged into NSMC and the holders of FPP Common Stock (the "FPP Stockholders") will receive in exchange for their shares of FPP Common Stock, without par value ("FPP Stock"), shares of NSMC Common Stock;

WHEREAS, NSMC will incorporate a new subsidiary ("New FPP") and pass, on or before November 1, 1969, to such subsidiary all of the assets of FPP; and

NOW, THEREFORE, in consideration of the mutual agreements and conditions herein contained, NSMC and FPP hereby agree each with the other, in accordance with the applicable laws of the District of Columbia and the State of New York, that FPP shall be merged into NSMC (which in its capacity as the surviving corporation is sometimes hereinafter called the "Surviving Corporation"), and the terms and conditions of the merger and the mode of carrying them into effect are and shall be as follows:

1. When this Agreement and the transactions contemplated hereby have been approved and the Articles of Merger, substantially in the form attached hereto as Exhibit A-1, required by Sections 68 and 71 of the Business Corporation Act of the District of Columbia have been filed in accordance with the provisions of such Law, and the Certificate of Merger, substantially in the form attached hereto as Exhibit A-2, required by Section 907 of the New York Business Corporation Law have been filed in accordance with the provisions of such Law, the separate existence of FPP shall cease and it shall be merged into NSMC. The date on which such recording and filing have been completed and the transaction contemplated hereby becomes effective shall be known as the "Effective Date".

2. The laws which are to govern the Surviving Corporation are the laws of the District of Columbia. The Articles of Incorporation of NSMC shall, on the Effective Date, be the Articles of Incorporation of the Surviving Corporation, from and after the Effective Date, subject always to the right of the Surviving Corporation to amend its Articles of Incorporation in accordance with the laws of the District of Columbia. The By-Laws of the Surviving Corporation shall be the By-Laws of NSMC as in effect on the Effective Date, until changed or amended as provided therein.

3. (a) On the Effective Date, NSMC will issue and deliver to the FPP Stockholders 6,976 shares of NSMC Common Stock.

(b) On the Effective Date, the FPP stockholders will deliver to The Riggs National Bank of Washington, as Escrow Agent under an Escrow Agreement substantially in the form and substance of Exhibit B hereto (the "Escrow Agreement"), 698 shares of NSMC Common Stock, such stock to be released from escrow and delivered to the FPP Stockholders in whose names such shares are registered in accordance with the terms of this Agreement and the Escrow Agreement.

(c) The shares of NSMC Common Stock to be issued or released pursuant to this paragraph 3 shall be apportioned among the FPP Stockholders in the same proportion as the number of shares

of FPP Stock exchanged by each FPP Stockholder pursuant hereto on the Effective Date bears to the total number of shares of FPP Stock so exchanged by all the FPP Stockholders pursuant hereto. No fractional shares or scrip will be issued by NSMC, and fractional interests of each FPP Stockholder will be increased or decreased to the nearest whole share.

(d) In the event that, prior to the Effective Date, the outstanding shares of NSMC Common Stock shall have been, without fair consideration, increased, decreased, changed into or exchanged for a different number or kind of shares or securities through reorganization, recapitalization, reclassification, stock dividend, stock split, or other like changes in NSMC's capitalization, then an appropriate and proportionate adjustment shall be made in the number and kind of shares of NSMC Common Stock to be thereafter delivered to the FPP Stockholders hereunder.

4. Except as provided herein, upon the merger becoming effective, all the rights, privileges, powers and franchises and all property and assets of every kind and description of FPP and NSMC, including, without limitation, trade names, licenses and registrations, and the good will relating to any of the foregoing, shall be vested in and be held and enjoyed by NSMC, without further act or deed, and all the estates and interests of every kind of FPP and NSMC, including all debts due to any of them on whatever account, shall be as effectually the property of NSMC as they were of FPP and NSMC, and the title to any real estate vested by deed or otherwise in FPP and NSMC shall not revert or be in any way impaired by reason of the merger; and all rights of creditors and all liens upon any property of FPP and NSMC shall be preserved unimpaired, and all debts, liabilities and duties of FPP and NSMC shall thenceforth attach to NSMC as the Surviving Corporation and may be enforced against it to the same extent as if said debts, liabilities and duties had been incurred or contracted by it.

5. NSMC and the FPP Stockholders agree to execute and deliver the Escrow Agreement on the Effective Date.

6. FPP represents, warrants and agrees as follows:

(a) FPP is a corporation duly organized and validly existing in good standing under the laws of the State of New York with the power to own its property and to carry on its business as now being conducted, and there is no jurisdiction in which the character of the properties owned or the nature of the business conducted by it makes qualification as a foreign corporation necessary.

(b) FPP has no subsidiaries or affiliates.

(c) The authorized capital stock of FPP consists of 200 shares of Common Stock, without par value, of which 100 shares are issued and outstanding. Such issued shares have been validly authorized and issued and are fully paid and non-assessable. FPP has no outstanding options, warrants or other rights, calls or commitments to purchase capital stock of FPP, and there are no outstanding options, warrants, rights, calls, commitments, conversion rights, plans or other agreements of any character providing for the purchase of any authorized but unissued FPP shares. Prior to the Effective Date, FPP will not authorize any increase in the number of shares of its authorized capital stock or issue any options or rights to subscribe for or purchase shares of its capital stock.

(d) FPP has furnished NSMC with a balance sheet of FPP as of December 31, 1968 and an Income Statement for the twelve month period then ended, prepared by Joseph Klein & Company, accountants. Such financial statements are true and correct and have been prepared in accordance with generally accepted accounting principles consistently followed throughout the period involved. The balance sheet fairly presents the condition of FPP as of the date thereof, and reflects all known claims against and debts and liabilities (including adequate provision for all taxes) of FPP, fixed or contingent, as at the date thereof, and the Income Statement accurately presents the results of the operations of FPP for the period indicated. Neither such balance sheet nor such Income

Statement contains any untrue statement of a material fact, or omits to state any material fact necessary in order to make the statements contained in this paragraph or therein not misleading.

(e) Except for such claims, debts and liabilities as are reflected in the December 31, 1968 balance sheet referred to in paragraph 6(d) above, FPP has no outstanding indebtedness and is not subject to any claims or liabilities other than trade or business obligations incurred in the ordinary course of business. Without the prior written consent of NSMC, FPP will not incur, prior to the Effective Date, any additional indebtedness for money borrowed or incur any liabilities other than in the ordinary course of business.

(f) Since December 31, 1968, FPP has not issued, or declared or paid any dividend on, or declared or made any distribution on, or authorized the creation or issuance of, or effected any split-up or any recapitalization of, any of its stock of any class, or directly or indirectly redeemed, purchased or otherwise acquired any of its outstanding stock, or authorized or made any change in its Certificate of Incorporation or agreed to take any such action.

(g) FPP has filed all requisite Federal income, payroll and excise tax returns and all appropriate state and local income, sales, payroll, personal property and franchise tax returns required to be filed by it and has paid all taxes and assessments (including interest or penalties) owed to the extent that such taxes and assessments have become payable. To the extent that such taxes and assessments and any subsequent tax liabilities have accrued but have not become payable, the full amounts thereof have been reflected as liabilities on its books. In addition, FPP has paid all taxes which would not require the filing of returns and which are required to be paid by it. The Federal income tax returns of FPP have never been examined by the Internal Revenue Service.

(h) FPP does not own any real property. FPP has good and marketable title to all its personal and intangible property, including the personal and intangible property reflected in the balance sheet delivered pursuant to paragraph 6(d) above, with such changes in such personal and intangible property as have been made since the date of such balance sheet, in the ordinary course of business. None of such personal and intangible property is subject (i) to a contract of sale, except inventory to be sold in the ordinary course of business or (ii) to mortgages, pledges, liens, encumbrances, security interests or charges of any kind or character except as herein disclosed. All buildings, structures and appurtenances and all machinery and equipment leased by FPP are in good operating condition and in a state of good maintenance and repair, and are adequate and suitable for the purposes for which they are presently being used.

(i) FPP does not hold under lease any real or personal property except as set forth in Exhibit C hereto. Each lease set forth in Exhibit C is in full force and effect; all rents and additional rents due to date on each such lease have been paid; in each case the lessee has been in peaceable possession since the commencement of the original term of such lease and is not in default thereunder and no waiver, indulgence or postponement of the lessee's obligations thereunder has been granted by the lessor; and there exists no event, occurrence, condition or act which, with the giving of notice, the lapse of time or the happening of any further event or condition would become a default under any such lease. FPP has not violated any of the terms or conditions under any such lease and all of the covenants to be performed by the lessee under each such lease have been fully performed.

(j) Attached hereto as Exhibit D is a true and correct list of all policies of insurance of FPP including the amounts thereof, in force as at the date hereof, and such policies are in full force and effect. FPP will continue to maintain all of such policies or renewals thereof in full force and effect up to and including the Effective Date.

(k) FPP does not own, possess, or have a license in respect of any trade secret, technical information, patent, patent right, application for patent, trademark, trade name, copyright, process

or formula used in its business, except as set forth in Exhibit E. None of such trademarks and trade names have been registered in, filed in, or issued by any government office. Except as noted on such list, to the best knowledge, and belief of the FPP's officers, no trademark or trade name infringes, none is owned by or licensed to any other person, firm or corporation in the United States or elsewhere, no proceedings have been instituted or are pending or threatened which challenge the sole and exclusive ownership thereof by FPP and none is subject to any proceeding or action attacking or contesting its validity. Except as set forth on Exhibit E attached hereto, FPP has full right, title and ownership to its corporate name and any and all other names under which it does business. To the best of its knowledge FPP possesses valid rights to use all patents, copyrights, trademarks, trade names, and all licenses now used and necessary to conduct its business as presently being conducted.

(l) There are no actions, suits or proceedings pending or threatened against or affecting FPP, at law or in equity, by or before any Federal, state or municipal court or other governmental department, commission, board, bureau, agency or instrumentality which might materially adversely affect the business and property of FPP. FPP is not subject to any liability by reason of a violation of any order, rule, or regulation of, or default with respect to any tax return or any other return or report payable to or required to be filed with, any Federal, state, municipal or other governmental agency, department, commission, bureau, board or instrumentality to which it is subject.

(m) FPP has no collective bargaining agreements with employees, executive employment agreements, executive compensation plans, employees' pension or retirement plans or pension trusts, employees' profit-sharing or bonus or stock purchase plans or any other similar agreements or plans, except as set forth in Exhibit F hereto. Between the date hereof and the Effective Date, FPP will not, without the written consent of NSMC, make or agree to make any increase in the rate of wages, salaries, bonuses or other remuneration of any executive employee or employees, or become a party to any employment contract or arrangement with any of its officers or employees other than contracts which are terminable at will or subject to termination on not more than one month's notice, or become a party to any contract or arrangement with any officers or employees providing for bonuses or profit-sharing payments, severance pay or retirement benefits.

(n) Attached hereto as Exhibit G is a true and correct list of all outstanding contracts, agreements or understanding to which FPP is a party, except (i) those referred to elsewhere in this paragraph 6, and (ii) any contract, agreement or understanding involving an aggregate expenditure by FPP of less than $2,000. Neither FPP nor any other party to any such contract, agreement or understanding is in material default under the terms of any such contract, agreement or understanding. Between the date hereof and the Effective Date, FPP will not, without the written consent of NSMC, make any changes or modifications in any such contracts, agreements or understandings, or incur any further obligations or surrender any rights thereunder, or make any further additions to its property or further purchases of equipment except such changes or modifications each in an amount less than $2,000, as are in the ordinary course of business or are necessary or appropriate to maintain their respective properties and equipment. FPP is not a party to any continuing contract for the future purchase of materials, supplies or equipment in excess of the requirements for its business as now being conducted.

(o) FPP is not subject to any order, judgment or decree with respect to its business or condition or any of its assets or property, or to any charter, by-law, mortgage, lease, agreement, instrument, order, judgment or decree which would prevent the consummation of the transactions contemplated hereunder, or compliance by FPP or the FPP Stockholders with the terms, conditions and provisions hereof.

(p) All outstanding accounts receivable (trade or other) of FPP, as set forth in the December 31, 1968 balance sheet and in its books and records, are collectible.

(q) Since December 31, 1968 the business and properties of FPP have not been substantially adversely affected in any way as a result of any legislative or regulatory change, revocation of any

license or right to do business, fire, explosion, accident, casualty, labor trouble, flood, drought, riot, storm, condemnation, or act of God or other public force or otherwise.

(r) The copies of FPP's Certificate of Incorporation and By-Laws, as amended to date, certified by its Secretary, heretofore delivered to NSMC, and of all instruments, agreements or other documents that may have been delivered to NSMC pursuant to the terms of this Agreement, are and will be complete and correct as of the date hereof and as of the Effective Date.

(s) FPP has maintained its books of account in the usual, regular and ordinary manner in accordance with generally accepted accounting principles applied on a consistent basis.

(t) In the negotiations leading up to the transaction contemplated by this Agreement, neither the FPP Stockholders nor FPP has retained or utilized the services of any broker or finder.

(u) During the period from the date hereof to and including the Effective Date, FPP will conduct its business solely in the usual and ordinary manner and will refrain from any transactions not in the ordinary course of business unless the prior written consent of NSMC to such transactions has been obtained.

7. NSMC represents, warrants and agrees as follows:

(a) NSMC is a corporation duly organized, validly existing and in good standing under the laws of the District of Columbia with the power to own its property and to carry on its business as now being conducted and is duly qualified and in good standing as a foreign corporation in the State of New York.

(b) The authorized capital stock of NSMC consists of 3,000,000 shares of Common Stock, par value $.025 per share, and as of the date hereof 2,908,723 shares are outstanding. Such outstanding shares have been and the shares to be issued hereunder when issued for the consideration as set forth herein will be validly issued and are or will be fully paid and non-assessable.

(c) The consolidated financial statements of NSMC as at August 31, 1968 contained in its 1968 Annual Report to Stockholders, certified by Peat, Marwick, Mitchell & Co., and the unaudited consolidated statement of earnings as reported to its shareholders for the six months ended February 28, 1969, prepared by NSMC are true and correct and fairly present the financial position of NSMC and its subsidiaries as of such dates, and the results of their operations for the periods then ended, subject in the case of the six month statement to year-end audit adjustments.

(d) In the negotiations leading up to the transaction contemplated by this Agreement, except as heretofore set forth in writing to FPP, NSMC has not retained or otherwise utilized the services of any broker or finder.

(e) The execution and performance of this Agreement by NSMC have been duly authorized by proper corporate action and such execution and performance are within its corporate powers.

(f) NSMC will use its best efforts to hold, on or before September 28, 1969, a Special Meeting of Stockholders to consider and act upon the merger described herein and the officers of NSMC will use their best efforts to have its stockholders approve the transactions contemplated hereby.

(g) There are no actions, suits or proceedings pending or threatened against or affecting NSMC or any of its subsidiaries, at law or in equity, by or before any Federal, state or municipal court or other governmental department, commission, board, bureau, agency or instrumentality which might materially adversely affect the business and property of NSMC and its subsidiaries taken as a whole. NSMC is not subject to any material liability by reason of a violation of any order, rule, or regulation of, or default with respect to any tax return or any other return or report payable to or

required to be filed with, any Federal, state, municipal or other governmental agency, department, commission, bureau, board or instrumentality to which it is subject.

(h) NSMC is not subject to any order, judgment or decree with respect to its business or condition or any of its assets or property, or to any charter, by-law, mortgage, lease, agreement, instrument, order, judgment or decree which would prevent the consummation of the transactions contemplated hereunder, or compliance by NSMC with the terms, conditions and provisions hereof.

(i) Since February 28, 1969 the business and properties of NSMC have not been substantially adversely affected in any way as a result of any legislative or regulatory change, revocation of any license or right to do business, fire, explosion, accident, casualty, labor trouble, flood, drought, riot, storm, condemnation, or act of God or other public force or otherwise.

8. NSMC, FPP and the FPP Stockholders agree as follows:

(a) NSMC and its authorized representatives shall, from and after the date hereof, have full access to the properties and the books and records of every kind of FPP, and the officers of FPP will furnish NSMC with such financial and operating data and other information as to the business and properties of FPP and copies of all documents referred to herein or in any list delivered hereunder, as NSMC shall from time to time request. From and after the date hereof and prior to the Effective Date, the officers of FPP will consult with NSMC's management with respect to the operations and management of FPP.

(b) FPP and NSMC each agrees to execute and deliver or cause to be executed and delivered such additional instruments as the other party may reasonably request for the purpose of carrying out this Agreement.

(c) FPP agrees to and does hereby indemnify and hold harmless NSMC from and against any and all claims, losses, liabilities or expenses which may be asserted against NSMC or FPP by any broker or other person claiming any finder's fee or commission by reason of services alleged to have been rendered for or at the instance of FPP in respect to the execution of this Agreement or in respect to the transactions contemplated hereby.

(d) NSMC agrees to and hereby does indemnify and hold harmless new FPP and the FPP Stockholders from and against any and all claims, losses, liabilities or expenses which may be asserted against or suffered by New FPP or the FPP Stockholders by any broker or other person claiming any finder's fee or commission by reason of services alleged to have been rendered for or at the instance of NSMC in respect to the execution of this Agreement or in respect to the transactions contemplated hereby.

(e) NSMC agrees, in the event that this merger is not consummated as herein provided, to use its best efforts to keep confidential any information (unless readily ascertainable from public or published information or trade sources) obtained from FPP concerning the properties, operations and business of FPP and will return to FPP any statements, documents or other written information obtained from FPP in connection therewith.

(f) The FPP Stockholders agree to cooperate and use their best efforts to have the present officers, directors and employees of FPP cooperate with New FPP on and after the Effective Date in the collection of accounts and notes receivable owing to FPP on the Effective Date, and in furnishing information, evidence, testimony and other assistance in connection with any actions, proceedings, arrangements or disputes of any nature with respect to matters pertaining to all periods prior to the Effective Date.

(g) The FPP Stockholders agree to use their best efforts to persuade all officers, directors and employees of FPP to remain in the employment of FPP both during the period from the date

hereof to the Effective Date and thereafter; the FPP Stockholders will also use their best efforts to retain, preserve and maintain the business relations of FPP with their suppliers, customers and others.

(h) NSMC agrees on or before the Effective Date to incorporate a subsidiary ("New FPP") as a New York corporation and to pass to such subsidiary on or before November 1, 1969 all of the assets of FPP (including the stock of the Subsidiaries) acquired pursuant to the merger contemplated herein. NSMC agrees that the Certificate of Incorporation of New FPP, to the extent that may be required by having paragraph 8(i) included herein, will comply with section 620 (b) of the New York Business Corporation Law.

(i) After the Effective Date and prior to October 31, 1972 and as long as Arthur Frommer, one of the FPP Stockholders, owns 25% of the NSMC Common Stock received by him on the Effective Date pursuant to this Agreement, NSMC will (i) insure that Arthur Frommer has the right to determine the FPP board of directors (to be seven in number), the appointment of FPP officers and the operations in the ordinary course of business, provided, however, that (x) Cortes W. Randell or his nominee is a director and that (y) the After Tax Earnings of FPP have increased by $50,000 over that of the preceding year.

9. The obligations of NSMC to consummate the transactions contemplated hereby are subject to the fulfillment on or prior to the Effective Date of the following conditions:

(a) NSMC shall have received from Messrs. Lowenthal, Landau, Fischer and Weisinger, counsel for FPP, at the expense of FPP a favorable opinion, dated the Effective Date, in form and substance satisfactory to NSMC and its counsel, Messrs. White & Case, to the effect that (i) FPP is duly organized and existing in good standing under the laws of New York; (ii) FPP has the corporate power to carry on its business as then being conducted and there is no jurisdiction where, in the opinion of such counsel, the nature of the business transacted makes qualification as a foreign corporation necessary; (iii) the authorized and outstanding capital stock of FPP is as represented in this Agreement, and the 100 outstanding shares have been duly and validly authorized and issued and are fully paid and non-assessable; (iv) no provision of the Certificate of Incorporation, as amended, or the By-Laws of FPP or of any contract to which FPP is a party prevents the consummation of the merger in the manner contemplated hereunder; (v) there are no outstanding options or agreements on the part of FPP to issue or sell any capital stock of FPP; (vi) this Agreement and the Escrow Agreement have been duly executed and delivered by FPP and the FPP Stockholders and each is the valid and binding obligation of FPP and each of the FPP Stockholders in accordance with its terms and any corporate action by FPP required in order to authorize the transactions herein contemplated has been taken; and (vii) to the knowledge of such counsel, FPP is not engaged in or threatened with any legal action or other proceeding, nor has it incurred or been charged with any presently pending violation of any Federal, state or local law or administrative regulation, which would materially adversely affect or impair the financial condition, business, operations, prospects, properties or assets of FPP; and (viii) as to such other matters incident to the transactions contemplated hereby as NSMC and its counsel may reasonably request at or prior to the Effective Date. In rendering its opinion, such counsel may rely to the extent that such counsel feels justified upon certificates, affidavits or other documents signed by officers of FPP with respect to any facts necessary to enable such counsel to give its opinion.

(b) No action or proceeding before a court or any other governmental agency or body shall have been instituted or threatened to restrain or prohibit the merger and no governmental agency or body shall have taken any other action or made any request of NSMC as a result of which the management of NSMC deems it inadvisable to proceed with the transaction.

(c) The representations and warranties of FPP and the FPP Stockholders shall be true on and as of the Effective Date with the same effect as though all such representations and warranties had been made on and as of such date subject to changes in the ordinary course of FPP's business; each and all of the agreements of FPP and the FPP Stockholders to be performed on or before

the Effective Date pursuant to the terms hereof shall have been duly performed; and FPP and the FPP Stockholders shall have delivered to NSMC a certificate dated the Effective Date and signed by them or on their behalf to both such effects.

(d) NSMC shall have received a balance sheet of FPP as of May 31, 1969 and an income statement for the five months then ended. Such financial statements (i) shall have been prepared by Joseph Klein & Company, independent accountants and shall be accompanied by the report thereof; (ii) shall have been prepared in accordance with accounting principles consistent with the accounting principles followed with respect to financial statements on prior periods; and (iii) shall reflect a net worth of FPP of not less than $60,000 and combined after tax earnings for the five months ended May 31, 1969 of not less than $20,000.

(e) No material adverse change in the financial condition or business of FPP shall have occurred and FPP shall not have suffered any material loss or damage to any of its properties or assets, whether or not covered by insurance, since December 31, 1968, which change, loss or damage materially affects or impairs the ability of FPP to conduct its business.

(f) FPP and the FPP Stockholders shall have executed the Escrow Agreement substantially in the form attached hereto as Exhibit B.

(g) The stockholders of NSMC shall have (i) approved an amendment to its Certificate of Incorporation increasing the number of shares of authorized Common Stock, and (ii) approved the merger transaction described herein. In addition, the number of NSMC Stockholders exercising their rights as dissenting stockholders under Section 74 of the Business Corporation Act of the District of Columbia shall not exceed two percent of the outstanding shares of NSMC Common Stock.

(h) The Effective Date shall be on or prior to October 31, 1969.

(i) The merger of Five-Dollar-A-Day Tours, Inc. into NSMC pursuant to an Agreement and Plan of Merger dated June 11, 1969 by and between Five-Dollar-A-Day Tours, Inc. and NSMC shall be consummated simultaneously herewith.

10. The obligation of FPP to consummate the transaction herein contemplated is subject to the fulfillment on or prior to the Effective Date of the following conditions:

(a) FPP shall have received from Messrs. White & Case, counsel for NSMC, at NSMC's expense, a favorable opinion, dated the Effective Date, in form and substance satisfactory to FPP and to FPP's counsel, Messrs. Lowenthal, Landau, Fischer & Weisinger to the effect that (i) NSMC is a corporation duly organized and validly existing in good standing under the laws of the District of Columbia and has the corporate power to carry on its business as then being conducted; (ii) New FPP is a corporation duly organized and validly existing in good standing under the laws of the State of New York; (iii) the shares of NSMC Common Stock delivered pursuant to this Agreement have been duly and validly authorized and issued and are fully paid and non-assessable; (iv) this Agreement has been duly executed and delivered by authorized officers of NSMC and is a valid obligation of NSMC legally binding upon it in accordance with its terms and any corporate action by NSMC required in order to authorize the transactions herein contemplated has been taken; and (v) all other actions and proceedings required by law or this Agreement to be taken by NSMC at or prior to the Effective Date in connection with this Agreement and the transactions provided for herein have been duly and validly taken.

(b) No action or proceeding before a court or any other governmental agency or body shall have been instituted or threatened to restrain or prohibit the consummation of the merger and no governmental agency or body shall have taken any other action or made any request of FPP or the FPP Stockholders as a result of which it deems it inadvisable to proceed with the transaction.

(c) The representations and warranties of NSMC herein contained shall be true on and as of the Effective Date with the same effect as though all such representations and warranties had

been made on and as of such date subject to changes in the ordinary course of NSMC's business; each and all of the agreements of NSMC to be performed on or before the Effective Date pursuant to the terms hereof shall have been duly performed; and NSMC shall have delivered to FPP a certificate dated the Effective Date and signed by an officer of NSMC to both such effects.

(d) No material adverse change in the financial condition or business of NSMC shall have occurred and NSMC shall not have suffered any material loss or damage to any of its properties or assets, whether or not covered by insurance, since February 28, 1969, which change, loss or damage materially affects or impairs the ability of NSMC to conduct its business.

(e) The Effective Date shall be on or before October 31, 1969.

(f) The merger of Five-Dollar-A-Day Tours, Inc. into NSMC pursuant to an Agreement and Plan of Merger dated June 11, 1969 between Five-Dollar-A-Day Tours, Inc. and NSMC shall be consummated simultaneously herewith.

11. The FPP Stockholders agree jointly and severally to indemnify and hold harmless NSMC from and against all claims, liabilities, losses, costs, damages or expenses (including without limitation reasonable counsel fees incurred in litigation or otherwise) arising out of or sustained by NSMC due to any breach of any representation, warranty or agreement of FPP or the FPP Stockholders contained herein or in any certificate, schedule, exhibit or writing relating to or delivered pursuant hereto. Any amounts which may become due and payable to NSMC pursuant to this paragraph 11 shall be satisfied by returning to NSMC shares of NSMC Common Stock from escrow (valuing such shares at the mean average of the bid prices for the 30 days preceding the return date or, if shares of NSMC Common Stock are then traded on a national securities exchange, at the average of the closing prices for the 30 days preceding the return date). Any portion of any claim by NSMC under this paragraph 11 which shall thereafter remain unsatisfied, shall be satisfied by returning to NSMC shares of NSMC Common Stock delivered to the FPP Stockholders pursuant to this Agreement (valuing such shares at the mean average of the bid prices for the 30 days preceding the date on which they were received by the FPP Stockholders or, if shares of NSMC Common Stock was then traded on a national securities exchange, at the average of the closing prices for the 30 days preceding the date on which such shares were received by the Stockholders). Thereafter NSMC may pursue any and all other rights and remedies which it may have either at law or in equity to obtain satisfaction of any such claim under this paragraph 11. NSMC shall promptly notify the FPP Stockholders of any claim that it may have under this paragraph 11. Notwithstanding any of the provisions of this Agreement to the contrary, FPP and the FPP Stockholders shall be liable hereunder only to the extent that such liabilities exceed $2,500.

12. (a) Each FPP Stockholder further represents and agrees that he has not directly or indirectly offered or disposed of or attempted to offer or dispose of any of the shares of NSMC Common Stock and that he is acquiring the shares of NSMC Common Stock pursuant to this Agreement solely for investment and not with a view to the sale, distribution or other disposition thereof. The FPP Stockholders understand that NSMC is relying upon the truth and accuracy of the foregoing representation for issuing the Common Stock to the FPP Stockholders without first registering such NSMC Common Stock under the Securities Act of 1933. Each FPP Stockholder will and does hereby indemnify and hold harmless NSMC against all liabilities, costs and expenses, including reasonable attorneys' fees, incurred by NSMC as a result of any sale or distribution by such Stockholder of such Common Stock in violation of such Act. All certificates representing NSMC Common Stock issued pursuant to this Agreement will contain a legend in the following form: "The transfer or pledge of the shares represented by this Certificate are subject to the provisions of an Agreement between the holder hereof and National Student Marketing Corporation dated as of June 11, 1969."

(b) Each FPP Stockholder agrees that, prior to any transfer or disposition of any shares of NSMC Common Stock, such FPP Stockholder will give written notice to NSMC expressing his intention to effect such transfer or disposition and describing briefly the manner of the proposed transfer or disposition

of such shares of NSMC Common Stock. Promptly upon receiving such notice, NSMC shall present copies thereof to its counsel and the provisions of the following subdivision shall apply:

(i) If in the opinion of such counsel the proposed transfer or disposition does not require registration of such shares of NSMC Common Stock under the Securities Act of 1933, as then in force or any similar Federal statute then in force (of which opinion NSMC will notify such FPP Stockholder as promptly as practicable) or, if such FPP Stockholder shall have received a no-action letter from the Securities and Exchange Commission (a copy of which he shall have furnished to NSMC) such FPP Stockholder shall upon receipt of such opinion from NSMC or upon the furnishing of such copy to NSMC, as the case may be, be entitled to transfer or dispose of such shares in accordance with the terms of the notice delivered by him to NSMC.

(ii) If in the opinion of such counsel the proposed transfer or disposition requires such registration of such shares of NSMC Common Stock, such Stockholder shall not proceed with such transfer or disposition unless and until NSMC shall have registered the same; provided, however, that NSMC shall be under no obligation to register any such shares except as hereinafter provided.

(c) In the case of any proposed registration prior to August 31, 1970 of Common Stock of NSMC on Form S-1 under the Securities Act of 1933 as then in effect or any similar Federal statute then in effect, at least 25 days prior to filing a registration statement for such stock NSMC shall send a written notice of such intended registration to each of the FPP Stockholders by first class mail, postage prepaid, at their respective addresses appearing on the stock records of NSMC. If within 20 days after the mailing of such notice any FPP Stockholder shall request in writing the registration of up to 25 percent of the shares received by him pursuant hereto and held by him, NSMC shall include such shares as he shall specify in the filing of such registration and will use its best efforts to cause such registration statement to become effective as soon as practicable thereafter. In addition to the foregoing, in the case of any proposed registration in the twelve months next succeeding August 31, 1970, notice shall be similarly given and such FPP Stockholder may request the registration of such additional shares as he may desire provided that in the aggregate he will not have disposed of in excess of 50 percent of the shares received by him pursuant hereto, NSMC shall include such shares as he shall specify in the filing of such registration and will use its best efforts to cause such registration statement to become effective as soon as practicable thereafter. Further, in the case of any proposed registration on or prior to August 31, 1973, notice shall be similarly given and such FPP Stockholder may request the registration of such additional shares as he may desire and NSMC will include such shares as he shall specify in the filing of such registration and will use its best efforts to cause such registration statement to become effective as soon as practicable thereafter. It is understood and agreed that, in the event of any registration of shares of NSMC Common Stock pursuant to this paragraph 12(c), NSMC may delay the delivery of prospectuses to the Stockholders for a period not in excess of 60 days from the effective date of such registration statement.

(d) In the event of any registration pursuant to this paragraph 12, NSMC shall indemnify such FPP Stockholders against all losses, claims, damages and liabilities caused by any untrue statement of a material fact contained in the registration statement or prospectus (and as amended or supplemented if NSMC shall have furnished any amendments or supplements thereto), or caused by any omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except in so far as such losses, claims, damages or liabilities are caused by any untrue statement of a material fact contained in, or any material fact omitted from, information furnished in writing to NSMC by any FPP Stockholder expressly for use therein. It shall be a condition precedent to any right of registration under this paragraph 12 that each FPP Stockholder requesting registration shall furnish to NSMC in writing such information as shall be reasonably requested by NSMC for use in any such registration statement or prospectus and shall agree in writing to indemnify NSMC, its directors and officers, and each person, if any, who controls NSMC within the meaning of Section 15 of the Securities Act of 1933, as amended, and any underwriter for NSMC against all losses, claims, damages and liabili-

ties caused by any untrue statement of a material fact contained in, or any material fact omitted from, information so furnished in writing by such Stockholder. The expenses in connection with any registration under this paragraph 12 including, without limitation, printing costs and fees and disbursements of counsel and independent accountants, shall be borne by NSMC. Any additional expenses incurred by reason of including the FPP Stockholders' shares shall be borne by the person or persons so registering. NSMC shall not be required to maintain a current prospectus more than nine months (or such longer period as may be mutually agreed upon) after the date of filing any registration statement pursuant to this paragraph 12.

(e) Notwithstanding the foregoing provisions of this paragraph 12 each FPP Stockholder agrees that he will not dispose of any shares of NSMC Common Stock if in the opinion of NSMC's independent public accountants such disposition will result in the accounting treatment of the transaction contemplated by this Agreement being other than a "pooling of interests".

13. The representations, warranties and agreements of the parties made herein shall survive the consummation of the transactions contemplated by this Agreement and shall remain in full force and effect for a period of thirty seven months after the Effective Date. It is understood and agreed that the liability of the Stockholders as among themselves with respect to representations, warranties and agreements contained in this Agreement shall be in proportion to the shares of NSMC Common Stock received by them pursuant to the provisions of this Agreement.

14. From and after the Effective Date none of the FPP Stockholders shall (except those continuing in the employ of New FPP and in the case of such FPP Stockholders none of them shall subsequent to the termination of their employ) retain in any manner or form any customer lists or other confidential written information, trade secrets or innovations of any kind relating to the business of FPP nor will any of such FPP Stockholders divulge at any time any such customer lists or written confidential information or other confidential information to persons other than directors, officers or employees of New FPP, NSMC or its subsidiaries.

15. Any notice or communication required or permitted hereunder shall be sufficiently given if sent by first class mail, postage prepaid, and if to FPP addressed to it at 70 Fifth Avenue, New York, New York 10011 with a copy to Lowenthal, Landau, Fischer & Weisinger, 250 Park Avenue, New York, N. Y. 10017; and if to NSMC, addressed to it at 345 Park Avenue, New York, New York 10017, marked for the attention of the Secretary, with a copy thereof to Messrs. White & Case, 14 Wall Street, New York, New York 10005.

16. This Agreement and the rights of the parties hereunder may not be assigned (except by operation of law) and shall be binding upon and shall inure to the benefit of the parties hereto and successors of NSMC and FPP.

17. This Agreement and the Exhibits hereto and the documents delivered pursuant hereto constitute the entire agreement and understanding between FPP and NSMC and supersedes any prior agreement and understanding relating to the subject matter of this Agreement.

18. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

19. Whether or not the transaction herein contemplated shall be consummated, NSMC will pay the fees, expenses and disbursements of NSMC and its counsel in connection with the subject matter of this Agreement and any amendments thereto and all other costs and expenses incurred by NSMC in performance and compliance with all conditions to be performed by it under this Agreement. FPP will pay the fees, expenses and disbursements incurred by FPP in connection with the subject matter of this Agreement and any amendments thereto and all other costs and expenses incurred by them in performance and compliance with all conditions to be performed by them under this Agreement.

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20. This Agreement shall be construed and interpreted in accordance with the laws of the State of New York.

21. Anything herein to the contrary notwithstanding and notwithstanding any stockholder vote of approval of this Agreement and the merger provided herein, this Agreement may be terminated and abandoned by mutual consent of the Board of Directors of both NSMC and FPP at any time prior to the Effective Date.

IN WITNESS WHEREOF, FPP and NSMC have caused their respective corporate names to be hereunto subscribed and their respective corporate seals to be hereunto affixed by their officers thereunto duly authorized the day and year first above written.

NATIONAL STUDENT MARKETING CORPORATION

[Corporate Seal]

By CORTES W. RANDELL
President

ATTEST:

JOHN GLANDON DAVIES
Secretary

FROMMER-PASMANTIER PUBLISHING CORPORATION

[Corporate Seal]

By PAUL E. PASMANTIER
President

ATTEST:

ARTHUR FROMMER
Secretary

Confirmed and accepted this 11th day of June, 1969.

Stockholders of Frommer-Pasmantier Publishing Corporation.

ARTHUR FROMMER
Arthur Frommer

PAUL E. PASMANTIER
Paul E. Pasmantier

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EXHIBIT A-1

ARTICLES OF MERGER

Pursuant to Sections 68 and 71 of the District of Columbia Business Corporation Act, the undersigned hereby certify:

(1) A conformed copy of the Agreement and Plan of Merger between National Student Marketing Corporation ("NSMC") and Frommer-Pasmantier Publishing Corporation ("FPP" dated June 11, 1969 is attached hereto as Exhibit A and incorporated herein by reference.

(2) The authorized capital stock of NSMC consists of shares of Common Stock, par value $.025 per share, of which shares are issued and outstanding.

(3) The authorized capital stock of FPP consists of 200 shares of Common Stock, without par value, of which 100 shares are issued and outstanding.

(4) The shareholders of NSMC, a District of Columbia corporation, approved and adopted the Agreement and Plan of Merger at a Special Meeting of Shareholders held on , 1969. The results of the vote were as follows:

For the Plan	Against the Plan
Shares	Shares

(5) The shareholders of FPP, a New York corporation, approved and adopted the Agreement and Plan of Merger at a Special Meeting of Shareholders held on , 1969. The results of the vote were as follows:

For the Plan	Against the Plan
Shares	Shares

IN WITNESS WHEREOF, these Articles have been signed this day of , 1969.

NATIONAL STUDENT MARKETING CORPORATION

By .....
President

[Corporate Seal]

ATTEST:

By .....
Secretary

FROMMER-PASMANTIER PUBLISHING CORPORATION

By .....
President

[Corporate Seal]

ATTEST:

By .....
Secretary

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EXHIBIT A-2

CERTIFICATE OF MERGER

OF

FROMMER-PASMANTIER PUBLISHING CORPORATION

AND

NATIONAL STUDENT MARKETING CORPORATION

INTO

NATIONAL STUDENT MARKETING CORPORATION

(Under Section 907 of the Business Corporation Law)

The undersigned hereby certify:

(1) The name of the constituent corporation to be merged is Frommer-Pasmantier Publishing Corporation ("FPP") and the name of the surviving corporation is National Student Marketing Corporation ("NSMC").

(2) The outstanding capital stock of NSMC consists of shares of voting Common Stock, par value $.025 per share. The outstanding capital stock of FPP consists of 200 shares of voting Common Stock, without par value.

(3) The Agreement and Plan of Merger was approved by the Board of Directors of FPP at a meeting held on , 1969 and authorized by vote of the holders of two-thirds of all outstanding shares of FPP entitled to vote at a Special Meeting of Shareholders held on , 1969.

(4) The Agreement and Plan of Merger was approved by the Board of Directors and the Shareholders of NSMC in compliance with the applicable provisions of the laws of the District of Columbia. The laws of the District of Columbia permit the merger herein effected.

(5) The Certificate of Incorporation of FPP, a domestic corporation was filed by the Department of State on , 19 . NSMC, the surviving corporation, was incorporated under the laws of the District of Columbia on May 20, 1966. It filed its application for authority to do business in the State of New York on April 3, 1968.

(6) NSMC hereby agrees that NSMC may be served with process in New York in any action or special proceeding for the enforcement of any liability or obligation of any constituent corporation, previously amenable to suit in New York and for the enforcement under the Business Corporation Law of the right of shareholders of any constituent corporation to receive payment for their shares against NSMC as the surviving corporation.

(7) NSMC agrees that subject to the provisions of Section 623 of the Business Corporation Law, it will promptly pay to the shareholders of FPP the amount, if any, to which they shall be entitled under the provisions of the Business Corporation Law relating to the rights of shareholders to receive payment for their shares.

(8) NSMC hereby designates the Secretary of State as its agent upon whom process against it may be served in the manner set forth in paragraph (b) of Section 306 of the Business Corpora-

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tion Law in any action or special proceeding described in paragraph (6) hereof. The Secretary of State shall mail a copy of any such process to the following address:

National Student Marketing Corporation
1100 Connecticut Avenue N.W.
Washington, D. C.

(9) The Plan of Merger has not been abandoned.

Dated, , 1969

NATIONAL STUDENT MARKETING CORPORATION

By .....
President

.....
Secretary

FROMMER-PASMANTIER PUBLISHING CORPORATION

By .....
President

.....
Secretary

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EXHIBIT B

ESCROW AGREEMENT

AGREEMENT, dated October , 1969 among NATIONAL STUDENT MARKETING CORPORATION, a District of Columbia corporation ("NSMC"); ARTHUR FROMMER and PAUL E. PASMANTIER (the "Stockholders"), the holders of all of the outstanding capital stock of FROMMER-PASMANTIER PUBLISHING CORPORATION, a New York corporation ("FPP"); and THE RIGGS NATIONAL BANK OF WASHINGTON (the "Escrow Agent");

WHEREAS, FPP has this day merged with and into NSMC pursuant to an Agreement and Plan of Merger and whereas the agreement reflecting such transaction provides that a portion of the shares of NSMC Common Stock received by the Stockholders be delivered to and held by the Escrow Agent subject to the terms and conditions of an Escrow Agreement; and

WHEREAS, the parties hereto have agreed upon and wish to set forth herein the terms and conditions of said Escrow Agreement with respect to the shares of NSMC Common Stock to be so delivered to and held by the Escrow Agent:

NOW, THEREFORE, it is agreed as follows:

1. *Escrow Agent.* The Escrow Agent has agreed to act as such Escrow Agent in furtherance of the provisions of an Agreement and Plan of Merger, dated June 11, 1969 (the "Merger Agreement"), between NSMC and FPP, upon the terms, conditions and provisions provided in this Escrow Agreement.

2. *Escrow of NSMC Shares.* The Stockholders hereby designate and appoint The Riggs National Bank of Washington, as Escrow Agent to serve in accordance with the terms of this Escrow Agreement. Each of the Stockholders hereby agrees to deposit in escrow with the Escrow Agent on the Effective Date provided for in the Merger Agreement the shares of NSMC Common Stock, par value $.025 per share, listed opposite his name on the signature page hereto (the "Escrowed Shares"), issued and delivered by NSMC to such Stockholders on such Effective Date; such shares are represented by stock certificates registered in the names of the respective stockholders and accompanied by stock powers duly signed in blank, with signatures guaranteed by a bank, trust company or member firm of the New York Stock Exchange.

3. *Purpose of the Escrow.* To the extent herein provided, the Stockholders hereby indemnify and hold harmless NSMC against and in respect of any "Loss" (as defined in this paragraph 3) which is certified to the Escrow Agent in accordance with paragraph 4 hereof. The Escrowed Shares shall, subject to the terms and conditions of this Escrow Agreement be applied to indemnify and hold harmless NSMC against and in respect of the entire amount of such Loss. As used in this Escrow Agreement, the term "Loss" shall mean the amount of any loss, liability or reasonable and actual expense incurred by NSMC as a result of any misrepresentation or breach of warranty of the Stockholders contained in the Merger Agreement.

4. *Certification of Loss to Escrow Agent.*

(a) If NSMC is of the opinion that any Loss has occurred, and desires to have Escrowed Shares applied thereto pursuant to this Escrow Agreement, NSMC shall promptly so notify the Stockholders in writing at the address provided in paragraph 12 hereof and shall transmit a copy of such notice to the Escrow Agent. Any such notice shall contain a detailed statement specifying the circumstances and computation of such asserted Loss. Notice of any claim of Loss with respect to the Escrowed Shares must be given on or prior to October 31, 1972.

(b) The amount of any Loss asserted by NSMC by notice given pursuant to subparagraph 4(a) hereof and the number of Escrowed Shares, if any, to be returned to NSMC pursuant to paragraph 5 hereof shall be certified to the Escrow Agent in writing jointly by NSMC and the Stockholders if they

agree on said amount and number, but if they cannot so agree within a period of 30 days after notice is given pursuant to subparagraph 4(a) hereof, either NSMC or the Stockholders shall be entitled within 30 days after such notice to direct submission of the matter in disagreement to arbitration in accordance with the rules and regulations of the American Arbitration Association. The arbitration shall be conducted by three arbitrators selected by such association in accordance with its rules and regulations. NSMC and the Stockholders shall promptly notify the Escrow Agent of such submission to arbitration. As promptly as possible thereafter the arbitrators shall certify to the Escrow Agent, and to NSMC and the Stockholders, that there is no Loss, or, if there is a Loss, the amount thereof and the number of shares to be returned to NSMC pursuant to paragraph 5 hereof. Such certification shall contain a detailed statement specifying the circumstances and computation of any Loss. The determination of the arbitrators as to the amount of the Loss and the number of Escrowed Shares to be returned to NSMC, if any, shall be conclusive and binding upon the Stockholders and NSMC. Such determination may be deferred pending the time when any Loss which is uncertain or contingent becomes fixed. The expenses of each party, including legal and accounting fees, if any, with respect to any disagreement hereunder shall be borne by such party. If the matter is submitted to arbitration, the arbitrators shall designate the party or parties to bear the other expenses of such determination and/or the respective amounts to be borne by each.

(c) In connection with any asserted Loss, NSMC will, or will cause New FPP to make available to the Stockholders, their counsel and accountants such records as they may reasonably request pertaining to such asserted Loss.

5. *Number of Shares Returnable to NSMC in the Event of Loss.*

(a) Upon determination pursuant to the provisions of paragraph 4 hereof of the amount of any Loss, such amount shall be divided by the then market price of the shares, determined as set forth in paragraph 11 of the Merger Agreement and the resulting figure (rounded to the nearest whole number) shall be the number of Escrowed Shares to be returned to NSMC in respect of such Loss pursuant to the provisions of this Escrow Agreement (the "Returned Shares").

(b) In the event that the Escrow Agent shall not have received on or prior to October 31, 1972 a copy of any notice of a Loss asserted by NSMC pursuant to the provisions of paragraph 4 hereof (which Loss has not been satisfied prior to such date), then promptly after such date the Escrow Agent shall deliver the Escrowed Shares to the Stockholders. In the event that NSMC shall assert any Loss hereunder on or prior to October 31, 1972, then the Escrow Agent shall deliver to the Stockholders only the number of Escrowed Shares in excess of the number of shares claimed by NSMC. Promptly following the making of the final computation pursuant to paragraph 5 hereof and the certification thereof to the Escrow Agent pursuant to subparagraph 4(b) hereof, the Escrow Agent shall deliver to NSMC, for immediate cancellation only, the Returned Shares, and shall deliver to the Stockholders the balance of the Escrowed Shares. Such deliveries shall be effected by the surrender by the Escrow Agent to NSMC of the stock certificates then in its possession representing Escrowed Shares, accompanied by any stock powers pertaining thereto, whereupon NSMC shall promptly issue to the Escrow Agent a new stock certificate registered in the names of the Stockholders for the number of Escrowed Shares then remaining in escrow as reduced by the number of Returned Shares, and the Escrow Agent shall retain such new stock certificates subject to the terms of this Escrow Agreement.

6. *Adjustment in Shares to Reflect Stock Dividends, Split-Up or Other Recapitalization.* In the event that, prior to any delivery of Escrowed Shares out of escrow by the Escrow Agent in accordance with the terms hereof, the outstanding shares of NSMC Common Stock shall have been without fair consideration, increased, decreased, changed into or exchanged for a different number or kind of shares or securities through reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split, or other like changes in NSMC's capitalization, then notice of such change will be given to the Escrow Agent and an appropriate and proportionate adjustment shall be made in the number and kind of shares of NSMC Common Stock to be thereafter delivered hereunder.

7. *Right of Stockholders to Defend Claims.* The Stockholders shall at their expense have the opportunity to be represented by counsel of their choice in connection with the defense of any action,

suit, proceeding, demand or claim brought against NSMC in respect of which NSMC may be entitled to indemnification pursuant to paragraph 3 hereof. If the Stockholders elect to exercise this right and give notice to NSMC conceding NSMC's right to such indemnification, their counsel shall have control over the prosecution of the defense of said action, suit, proceeding, demand or claim. If after such opportunity the Stockholders or their counsel do not participate in such proceedings, they shall be bound by the results obtained by NSMC. NSMC shall give prompt written notice of any such claim to the Stockholders at the addresses set forth on the stock transfer records maintained by NSMC's Transfer Agent. In connection with any defense or consideration of defense by the Stockholders of any claim referred to hereinabove in this paragraph, NSMC will make available to the Stockholders, their counsel and accountants such records as they may reasonably request pertaining to said claim.

8. *Voting Rights, Dividends, etc.* Pending the delivery of Escrowed Shares out of escrow pursuant to the provisions of paragraph 5 hereof, the Stockholders may exercise all voting rights with respect to the Escrowed Shares and may receive the benefit of all dividends and other distributions with respect thereto; provided, however, that any shares which are issued as stock dividends or in a split-up or other recapitalization of NSMC with respect to Escrowed Shares shall be deposited by the Stockholders as additional Escrowed Shares. All dividends paid on Returned Shares shall be repaid to NSMC by the Stockholders.

9. *Fees.* The Stockholders agree to pay the Escrow Agent for its services hereunder such reasonable fee as may be customarily charged for such services by banks in Washington, D. C.

10. *Responsibilities of Escrow Agent.* The acceptance by the Escrow Agent of its duties under this Escrow Agreement is subject to the following terms and conditions, which the parties to this Escrow Agreement hereby agree shall govern and control with respect to its rights, duties, liabilities and immunities:

(a) The Escrow Agent shall act hereunder as depositary only, and it shall not be responsible or liable in any manner whatever for the computations to be made in accordance with the formula stated in paragraph 5 hereof nor for the sufficiency, correctness, genuineness or validity of any security deposited with it.

(b) The Escrow Agent shall be protected in acting upon any written notice, request, waiver, consent, receipt or other paper or document furnished to it, not only as to its due execution and the validity and effectiveness of its provisions but also as to the truth and acceptability of any information therein contained, which it in good faith believes to be genuine and what it purports to be.

(c) The Escrow Agent shall not be liable for any error of judgment, or for any act done or step taken or omitted by it in good faith, or for any mistake of fact or law, or for anything which it may do or refrain from doing in connection herewith, except its own negligence or misconduct.

(d) The Escrow Agent may consult with, and obtain advice from, legal counsel in the event of any question as to any of the provisions hereof or its duties hereunder, and it shall incur no liability and shall be fully protected in acting in good faith in accordance with the opinion and instructions of such counsel. The cost of such services shall be added to and be a part of the Escrow Agent's fee hereunder.

(e) The Escrow Agent shall have no duties except those which are expressly set forth herein, and it shall not be bound by any notice of a claim, or demand with respect thereto, or any waiver, modification, amendment, termination or rescission of this Escrow Agreement, unless in writing received by it, and, if its duties herein are affected, unless it shall have given its prior written consent thereto.

11. *Amendment and Termination.* This Escrow Agreement may be amended or cancelled by and upon written notice to the Escrow Agent at any time given jointly by NSMC and the Stockholders, but the duties or responsibilities of the Escrow Agent may not be increased without its consent.

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12. *Notices.* Any notices or other communications required or permitted hereunder shall be sufficiently given if sent by registered or certified mail, postage prepaid, if to the Stockholders addressed to them at their addresses as set forth on the stock transfer records by NSMC's Transfer Agent, if to NSMC addressed to it at 345 Park Avenue, New York, New York 10017, marked for the attention of the Secretary, with a copy thereof to Messrs. White & Case, 14 Wall Street, New York, New York 10005, and if to the Escrow Agent addressed to it at 1503 Pennsylvania Avenue, N. W., Washington, D. C. marked for the attention of the Escrow Department; or in any case to such other address as shall be furnished in writing by such party. Such notices or other communications so given shall be deemed to have been given on the date so mailed.

13. *Parties in Interest.* This Escrow Agreement shall be binding upon and inure to the benefit of the respective heirs, legal representatives, successors and assigns of the parties hereto.

14. *Execution by Escrow Agent.* The execution of this Escrow Agreement by the Escrow Agent shall constitute a receipt for the Escrowed Shares and shall evidence its acceptance and agreement to the terms hereof.

IN WITNESS WHEREOF, the parties hereto have duly caused this Escrow Agreement to be executed as of the date first above written.

Escrowed Shares

.....
Arthur B. Frommer

.....
Paul E. Pasmantier

NATIONAL STUDENT MARKETING CORPORATION

By .....
President

[Corporate Seal]

ATTEST:

.....
Secretary

THE RIGGS NATIONAL BANK OF WASHINGTON

By .....
Trust Officer

[Corporate Seal]

ATTEST:

.....
Assistant Secretary

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SCHEDULE F

AGREEMENT AND PLAN OF MERGER dated as of the 8th day of August, 1969 by and between NATIONAL STUDENT MARKETING CORPORATION, a District of Columbia corporation ("NSMC"), and MAR-CLAY MILLS, INC., a Pennsylvania corporation ("Mar-Clay").

WITNESSETH:

WHEREAS, the respective Boards of Directors of NSMC and Mar-Clay deem it advisable for the general welfare and advantage of the respective corporations and their shareholders that Mar-Clay be merged into NSMC pursuant to this Agreement and the applicable laws of the District of Columbia and the Commonwealth of Pennsylvania; and

WHEREAS, NSMC will incorporate a new subsidiary ("New Mar-Clay") and pass to such subsidiary all of the assets of Mar-Clay; and

WHEREAS, to effect such merger the holders of the outstanding shares of Common Stock, $100 par value of Mar-Clay ("Mar-Clay Stock"): Diane Glynn, Morris Glynn, Claire Sachs and Herbert S. Sachs (collectively, the "Stockholders") will receive in exchange for their shares of Mar-Clay Stock, an aggregate of 300,000 shares of Voting Common Stock, par value $.025 per share, of NSMC ("NSMC Common Stock"); and

WHEREAS, Mar-Clay and NSMC have been unable to agree upon the value of Mar-Clay and have agreed that such value is a function of the earnings of New Mar-Clay during the period from June 1, 1969 through May 31, 1973; and

WHEREAS, in order to establish that value Mar-Clay and NSMC desire to provide that a portion of the shares of NSMC Common Stock to be received in connection with the merger will be deposited by Stockholders in escrow to be returned to NSMC if earnings of New Mar-Clay do not reach certain levels as herein set forth;

NOW, THEREFORE, in consideration of the mutual agreements and conditions herein contained, NSMC and Mar-Clay hereby agree each with the other, in accordance with the applicable laws of the District of Columbia and the Commonwealth of Pennsylvania, that Mar-Clay shall be merged into NSMC (which in its capacity as the surviving corporation is sometimes hereinafter called the "Surviving Corporation"), and that the terms and conditions of the merger and the mode of carrying them into effect are and shall be as follows:

1. When this Agreement and the transactions contemplated hereby have been approved and the Articles of Merger, substantially in the form attached hereto as Exhibit A-1, required by Sections 68 and 71 of the Business Corporation Act of the District of Columbia have been filed in accordance with the provisions of such Law, and the Articles of Merger, substantially in the form attached hereto as Exhibit A-2, required by Section 903 of the Pennsylvania Business Corporation Law has been filed in accordance with the provisions of such Law, the separate existence of Mar-Clay shall cease and it shall be merged into NSMC. The date on which such recording and filing have been completed and the transaction contemplated hereby becomes effective shall be known as the "Effective Date".

2. The laws which are to govern the Surviving Corporation are the laws of the District of Columbia. The Articles of Incorporation of NSMC shall, on the Effective Date, be the Articles of Incorporation of the Surviving Corporation from and after the Effective Date, subject always to the right of the Surviving Corporation to amend its Articles of Incorporation in accordance with the laws of the District of Columbia. The By-Laws of the Surviving Corporation shall be the By-Laws of NSMC as in effect on the Effective Date, until changed or amended as provided therein.

3. (a) Upon the Effective Date, NSMC will issue 375 shares of NSMC Common Stock for each one share of Mar-Clay Common Stock outstanding on the Effective Date, which shares of NSMC Common Stock shall be exchanged for Mar-Clay Common Stock as herein provided. Upon the effectiveness of

the merger every one share of Mar-Clay Common Stock issued and outstanding immediately prior to the effective time of the merger shall, by virtue of the merger and without any action on the part of the holder thereof, automatically be cancelled and there shall be exchanged therefor 375 fully paid and non-assessable shares of NSMC Common Stock.

(b) Immediately upon receipt of the shares as set forth in paragraph (a) above, the Stockholders will deliver to The Riggs National Bank of Washington, as Escrow Agent under an Escrow Agreement substantially in the form and substance of Exhibit B hereto (the "Escrow Agreement"), 140,000 shares of NSMC Common Stock (the "Escrowed Shares"), such stock to be released from escrow and delivered to the Stockholders in whose names such shares are registered, as follows:

(i) with respect to the fiscal year ending May 31, 1970, a number of shares of NSMC Common Stock equal in value to the amount, if any, by which Mar-Clay's After Tax Earnings for such period, as such After Tax Earnings are defined in Exhibit C hereto, exceeds (A) $400,000 or (B) 1969 After Tax Earnings, whichever is greater, multiplied by 15;

(ii) with respect to the fiscal year ending May 31, 1971, a number of shares of NSMC Common Stock equal in value to the amount, if any, by which Mar-Clay's After Tax Earnings for such period exceeds (A) $400,000, (B) 1969 After Tax Earnings or (C) 1970 After Tax Earnings, whichever is greatest, multiplied by 15;

(iii) with respect to the fiscal year ending May 31, 1972, a number of shares of NSMC Common Stock equal in value to the amount, if any, by which Mar-Clay's After Tax Earnings for such period exceeds (A) $400,000, (B) 1969 After Tax Earnings, (C) 1970 After Tax Earnings, or (D) 1971 After Tax Earnings, whichever is greatest, multiplied by 15;

(iv) with respect to the fiscal year ending May 31, 1973, a number of shares of NSMC Common Stock equal in value to the amount, if any, by which Mar-Clay's After Tax Earnings for such period exceeds (A) $400,000, (B) 1969 After Tax Earnings, (C) 1970 After Tax Earnings, (D) 1971 After Tax Earnings or (E) 1972 After Tax Earnings, whichever is greatest, multiplied by 15.

As used in this paragraph 3(b) "1969 After Tax Earnings" means the After Tax Earnings as determined pursuant to Exhibit C provided, however, that such calculation shall be made giving effect to a deduction for the year ended May 31, 1969, all federal taxes on the income of Mar-Clay without regard to any net operating tax loss carry-forward.

The value of NSMC Common Stock upon which the number of shares to be issued pursuant to this paragraph 3(b) shall be determined is the average of the bid and asked prices of NSMC Common Stock on the over-the-counter market for the 30 trading days prior to their release from escrow or if the NSMC Common Stock shall be at the time listed on a national stock exchange then the average of the closing prices of such stock for the 30 trading days prior to their release from escrow. Any shares required by this paragraph 3(b) to be released to the Stockholders shall be so released within 30 days following the date of issuance of the accountant's report referred to in Exhibit C hereto, which date shall in no event be more than 120 days after the end of the applicable accounting period, the number of shares and the date of release being subject to adjustment as provided in the Escrow Agreement and herein. In no event shall more than 140,000 shares of NSMC Common Stock be released in the aggregate. Any shares required to be issued pursuant to this paragraph 3(b) shall, notwithstanding any provision of this Agreement or the Escrow Agreement to the contrary, be released by September 30, 1974.

(c) The shares of NSMC Common Stock to be issued or released pursuant to this paragraph 3 shall be apportioned among the Stockholders in the same proportion as the number of shares of Mar-Clay Stock owned by each Stockholder on the Effective Date bears to the total number of shares of Mar-Clay Stock owned by all the Stockholders on such date. No fractional shares or scrip will be issued by NSMC, and fractional interests of each Stockholder will be increased or decreased to the nearest whole share.

(d) In the event that, prior to any issuance and delivery of shares of NSMC Common Stock to the Stockholders pursuant hereto, the outstanding shares of NSMC Common Stock shall have been, without new consideration, increased, decreased, changed into or exchanged for a different number or kind of shares or securities through reorganization, recapitalization, reclassification, stock dividend, stock split, or other like changes in NSMC's capitalization, then an appropriate and proportionate adjustment shall be made in the number and kind of shares of NSMC Common Stock to be thereafter delivered to the Stockholders hereunder.

4. Except as provided herein, upon the merger becoming effective, all the rights, privileges, powers and franchises and all property and assets of every kind and description of Mar-Clay and NSMC, including, without limitation, trade names, licenses and registrations, know-how, and the goodwill relating to any of the foregoing, shall be vested in and be held and enjoyed by NSMC as the Surviving Corporation, without further act or deed, and all the estates and interests of every kind of Mar-Clay and NSMC, including all debts due to any of them on whatever account, shall be as effectually the property of the Surviving Corporation as they were of Mar-Clay and NSMC, and title to any real estate vested by deed or otherwise in Mar-Clay and NSMC shall not revert or be in any way impaired by reason of the merger; and all rights of creditors and all liens upon any property of Mar-Clay and NSMC shall be preserved unimpaired, and all debts, liabilities and duties of Mar-Clay and NSMC shall thenceforth attach to NSMC as the Surviving Corporation and may be enforced against it to the same extent as if said debts, liabilities and duties had been incurred or contracted by it.

5. Prior to the Effective Date the Stockholders and NSMC shall have executed the Escrow Agreement and delivered it to the Escrow Agent.

6. Mar-Clay and the Stockholders severally and jointly represent, warrant and agree as follows:

(a) Mar-Clay is a corporation duly organized and validly existing in good standing under the laws of the Commonwealth of Pennsylvania with the power to own its property and to carry on its business as now being conducted, and is duly qualified as a foreign corporation doing business in each jurisdiction in which the character of the properties owned or the nature of the business conducted by it makes qualification as a foreign corporation necessary.

(b) Mar-Clay has no subsidiaries or affiliates.

(c) The authorized capital stock of Mar-Clay consists of 2,000 shares of Common Stock, $100 par value, of which 800 shares are issued and outstanding. Such issued shares have been validly authorized and issued and are fully paid and non-assessable. Mar-Clay has no outstanding options, warrants or other rights, calls or commitments to purchase capital stock of Mar-Clay, and there are no outstanding options, warrants, rights, calls, commitments, conversion rights, plans or other agreements of any character providing for the purchase of any authorized but unissued Mar-Clay shares. Prior to the Effective Date, Mar-Clay will not authorize any increase in the number of shares of its authorized capital stock or issue any options or rights to subscribe for or purchase shares of its capital stock.

(d) Mar-Clay has furnished NSMC with balance sheets of Mar-Clay as of May 31, 1968 and as of May 31, 1969 and income statements for the twelve month periods then ending, certified by Laventhol, Krekstein, Horwath & Horwath, independent accountants. Such financial statements are true and correct and have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods involved. The balance sheets fairly present the condition of Mar-Clay as of the dates thereof, and, except as otherwise referred to herein, reflect all known claims against and debts and liabilities (including adequate provision for all taxes) of Mar-Clay, fixed or contingent, as at the dates thereof, and the income statements accurately present the results of the operations of Mar-Clay for the periods indicated. Neither such balance sheets nor such income statements contain any untrue statement of a material fact, or omit to state any material fact necessary in order to make the statements contained in this paragraph or therein not misleading.

(e) Except for such claims, debts and liabilities as are reflected in the May 31, 1969 balance sheet referred to in paragraph 7(d) above or otherwise referred to herein, Mar-Clay has no outstanding indebtedness and is not subject to any claims or liabilities other than trade or business obligations incurred in the ordinary course of business. Without the prior written consent of NSMC, Mar-Clay will not incur, prior to the Effective Date, any additional indebtedness for money borrowed or incur any liabilities other than in the ordinary course of business.

(f) Since May 31, 1969, Mar-Clay has not issued, or declared or paid any dividend on, or declared or made any distribution on, or authorized the creation or issuance of, or effected any split-up or any recapitalization of, any of its stock of any class, or directly or indirectly redeemed, purchased or otherwise acquired any of its outstanding stock, or authorized or made any change in its Certificate of Incorporation or agreed to take any such action.

(g) Mar-Clay has filed all requisite Federal income, payroll and excise tax returns and all appropriate state and local income, sales, payroll, personal property and franchise tax returns required to be filed by it and has paid all taxes and assessments (including interest or penalties) owed by it to the extent that such taxes and assessments have become payable. To the extent that such taxes and assessments and any subsequent tax liabilities have accrued but have not become payable, the full amounts thereof have been reflected as liabilities on its books. In addition, Mar-Clay has paid all taxes which would not require the filing of returns and which are required to be paid by it. The Federal income tax returns for the year ending May 31, 1968 of Mar-Clay are presently being examined by the Internal Revenue Service and to date no claims or deficiencies have been asserted with respect thereto.

(h) Except as set forth in a schedule heretofore delivered by Mar-Clay to NSMC, Mar-Clay owns no real property. Except as noted on such schedule Mar-Clay has good and marketable title in fee simple to all such real property, free and clear of all encumbrances, liens and charges of every kind and character and such encumbrances, liens, easements, rights of way, restrictions, exceptions, reservations, limitations, burdens and other imperfections as do not materially impair the use of such real property in Mar-Clay's business or materially affect the marketability of title thereto. Mar-Clay has good and marketable title to all its personal and intangible property, including the personal and intangible property reflected in the most recent balance sheet delivered pursuant to paragraph 7(d) above, with such changes in such personal and intangible property as have been made since such dates, in the ordinary course of business. None of such personal and intangible property is subject (i) to a contract of sale, except inventory to be sold in the ordinary course of business or (ii) to mortgages, pledges, liens, encumbrances, security interests or charges of any kind or character except as herein disclosed or as set forth in a schedule heretofore delivered by Mar-Clay to NSMC. All buildings, structures and appurtenances owned by Mar-Clay and all machinery and equipment leased by Mar-Clay are in good operating condition and in a state of good maintenance and repair, and are adequate and suitable for the purposes for which they are presently being used.

(i) Mar-Clay does not hold under lease any real or personal property except as set forth in a schedule heretofore delivered by Mar-Clay to NSMC. Each such lease is in full force and effect; all rents and additional rents due to date on each such lease have been paid; in each case the lessee has been in peaceable possession since the commencement of the original term of such lease and is not in default thereunder and no waiver, indulgence or postponement of the lessee's obligations thereunder has been granted by the lessor; and there exists no event, occurrence, condition or act which, with the giving of notice, the lapse of time or the happening of any further event or condition would become a default under any such lease. Mar-Clay has not violated any of the terms or conditions under any such lease and all of the covenants to be performed by the lessee under each such lease have been fully performed.

(j) Mar-Clay has heretofore delivered to NSMC a true and correct list of all policies of insurance of Mar-Clay including the amounts thereof, in force as at the date hereof, and such policies are in full force and effect. Mar-Clay will continue to maintain all of such policies or renewals thereof in full force and effect up to and including the Effective Date.

(k) Mar-Clay does not own, possess or have any license in respect of any trade secret, technical information, patent, patent right, application for patent, trademark, trade name, copyright, process or formula used in its business, except as set forth in a schedule heretofore delivered to NSMC. Except as noted on such schedule, no trademark or trade name infringes on others, none is owned by or licensed to any other person, firm or corporation in the United States or elsewhere, no proceedings have been instituted or are pending or threatened which challenge the sole and exclusive ownership thereof by Mar-Clay and none is subject to any proceeding or action attacking or contesting its validity. Except as set forth in such schedule attached hereto, Mar-Clay has full right, title and owership to its corporate name and any and all other names under which it does business. Mar-Clay possesses valid rights to use all trademarks, trade names, and all licenses now used and necessary to conduct its business as presently being conducted.

(l) There are no actions, suits or proceedings pending or threatened against or affecting Mar-Clay, at law or in equity, by or before any Federal, state or municipal court or other governmental department, commission, board, bureau, agency or instrumentality, except as heretofore disclosed in writing by Mar-Clay to NSMC. Mar-Clay is not subject to any liability by reason of a violation of any order, rule, or regulation of, or default with respect to any tax return or any other return or report payable to or required to be filed with, any Federal, state, municipal or other governmental agency, department, commission, bureau, board or instrumentality to which it is subject.

(m) Mar-Clay has no collective bargaining agreements with employees, executive employment agreements, executive compensation plans, employees' pension or retirement plans or pension trusts, employees' profit sharing or bonus or stock purchase plans or any other similar agreements or plans, except as set forth in a schedule heretofore delivered by Mar-Clay to NSMC. Between the date hereof and the Effective Date, Mar-Clay will not, without the written consent of NSMC, make or agree to make any increase in the rate of wages, salaries, bonuses or other remuneration of any employee or employees (except increases for plant foremen and hourly wage and piece-work employees consistent with past practice), or become a party to any employment contract or arrangement with any of its officers or employees other than contracts which are terminable at will or subject to termination on not more than one month's notice, or become a party to any contract or arrangement with any officers or employees providing for bonuses or profit-sharing payments, severance pay or retirement benefits.

(n) Mar-Clay has heretofore delivered to NSMC a true and correct list of all outstanding contracts, agreements or understanding to which Mar-Clay is a party, except (i) those referred to elsewhere in this Agreement, (ii) any contract, agreement or understanding involving an aggregate expenditure by Mar-Clay of less than $5,000, and (iii) purchase orders to suppliers and sales orders from customers, issued or accepted in the ordinary course of business. Neither Mar-Clay nor any other party to any such contract, agreement or understanding is in default under the terms of any such contract, agreement or understanding. Between the date hereof and the Effective Date, Mar-Clay will not, without the written consent of NSMC, which consent will not be unreasonably withheld, make any changes or modifications in any such contracts, agreements or understandings, or incur any further obligations or surrender any rights thereunder, or make any further additions to its property or further purchases of equipment except such changes or modifications each in an amount less than $5,000, as are in the ordinary course of business or are necessary or appropriate to maintain its properties and equipment. Mar-Clay is not a party to any continuing contract for the future purchase of materials, supplies or equipment in excess of the requirements for its business as now being conducted.

(o) Mar-Clay is not subject to any order, judgment or decree with respect to its business or condition or any of its assets or property, or to any charter, by-law, mortgage, lease, agreement, instrument, order, judgment or decree which would prevent the consummation of the transactions contemplated hereunder, or compliance by Mar-Clay or the Stockholders with the terms, conditions and provisions hereof.

(p) All outstanding accounts receivable (trade or other) of Mar-Clay, as set forth in the May 31, 1969 balance sheet and in its books and records, are collectible.

(q) Since May 31, 1969 the business and properties of Mar-Clay have not been materially adversely affected in any way as a result of any legislative or regulatory change, revocation of any license or right to do business, fire, explosion, accident, casualty, labor trouble, flood, drought, riot, storm, condemnation, or act of God or other public force or otherwise and the Stockholders have no knowledge of any facts which are likely to result in such material adverse effect other than as heretofore disclosed in writing to NSMC.

(r) The copies of Mar-Clay's Certificate of Incorporation and By-Laws, as amended to date, Mar-Clay's Secretary, heretofore delivered to NSMC, and of all leases, instruments, agreements or other documents that may have been delivered to NSMC pursuant to the terms of this Agreement and which are identified in writing signed by any of the Stockholders and by NSMC, are and will be complete and correct as of the date hereof and as of the Effective Date. The execution of this Agreement and the performance of the obligations hereunder shall not violate any of the terms or provisions of any such leases, instruments, agreements or other documents and none requires the consent of any third party to the transactions contemplated hereby.

(s) Mar-Clay has maintained its books of account in the usual, regular and ordinary manner in accordance with generally accepted accounting principles applied on a consistent basis.

(t) In the negotiations leading up to the transaction contemplated by this Agreement, neither the Stockholders nor Mar-Clay has retained or utilized the services of any broker or finder.

(u) During the period from the date hereof to and including the Effective Date, Mar-Clay will conduct its business solely in the usual and ordinary manner and will refrain from any transactions not in the ordinary course of business unless the prior written consent of NSMC to such transactions has been obtained, which consent will not be unreasonably withheld.

7. NSMC represents, warrants and agrees as follows:

(a) NSMC and each of its subsidiaries are corporations duly organized, validly existing and in good standing under the laws of their respective states of incorporation with the power to own their properties and carry on their businesses as now being conducted. NSMC is duly qualified and in good standing as a foreign corporation in the Commonwealth of Pennsylvania.

(b) As of August 8, 1969, the authorized capital stock of NSMC consisted of 3,000,000 shares of Common Stock, par value $.025 per share, of which 2,904,555 shares (excluding 7,934 shares held in the treasury of NSMC) were outstanding. Such outstanding shares have been validly authorized and issued and are fully paid and non-assessable.

(c) NSMC has furnished Mar-Clay with (i) the consolidated financial statements of NSMC and its subsidiaries as at August 31, 1968 contained in its 1968 Annual Report to Stockholders, certified by Peat, Marwick, Mitchell & Co., and (ii) unaudited consolidated statement of earnings as reported to its shareholders for the six months ended February 28, 1969, prepared by NSMC. Such financial statements are true and correct and have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods involved. The consolidated financial statements fairly present the condition of NSMC and its subsidiaries as of the dates thereof, and the results of their operations for the periods indicated, subject in the case of the six months ended February 28, 1969, to year-end audit adjustments. None of such consolidated financial statements contain any untrue statement of a material fact, or omit to state any material fact necessary in order to make the statements contained in this paragraph or therein not misleading.

(d) In the negotiations leading up to the transaction contemplated by this Agreement, NSMC has not, except as heretofore disclosed to the Stockholders in writing, retained or otherwise utilized the services of any broker or finder.

(e) The execution and performance of this Agreement by NSMC have been duly authorized by proper corporate action and such execution and performance are within its corporate powers.

(f) The shares of NSMC Common Stock to be issued and delivered pursuant to this Agreement will, upon the consummation of the transactions contemplated by this Agreement, be duly authorized, validly issued, fully paid and nonassessable.

(g) NSMC is not subject to any order, judgment or decree with respect to its business or condition or any of its assets or property, or to any charter, by-law, mortgage, lease, agreement, instrument, order, judgment or decree which would prevent the consummation of the transactions contemplated hereunder, or compliance by NSMC with the terms, conditions and provisions hereof.

(h) Since February 28, 1969 the business and properties of NSMC have not been materially adversely affected in any way as a result of any legislative or regulatory change, revocation of any license or right to do business, fire, explosion, accident, casualty, labor trouble, flood, drought, riot, storm, condemnation, or act of God or other public force or otherwise and NSMC has no knowledge of any facts which are likely to result in such material adverse effect other than as heretofore disclosed in writing to Mar-Clay.

8. NSMC, Mar-Clay and the Stockholders agree as follows:

(a) NSMC and its authorized representatives shall, from and after the date hereof, have full access to the properties and the books and records of every kind of Mar-Clay, and the Stockholders will cause the officers of Mar-Clay to furnish NSMC with such financial and operating data and other information as to the business and properties of Mar-Clay and copies of all documents referred to herein or in any list delivered hereunder, as NSMC shall from time to time request. The Stockholders will cause Mar-Clay and its officers and employees to comply with all of the conditions of this Agreement relating thereto. From and after the date hereof and prior to the Effective Date at reasonable times requested by NSMC, the Stockholders will consult, and will use their best efforts to have the executive officers of Mar-Clay consult, with NSMC's management with respect to the operation and management of Mar-Clay.

(b) Mar-Clay, the Stockholders and NSMC each agree to execute and deliver or cause to be executed and delivered such additional instruments as the other party may reasonably request for the purpose of carrying out this Agreement.

(c) Mar-Clay and the Stockholders agree to and do hereby indemnify and hold harmless NSMC from and against any and all claims, losses, liabilities or expenses which may be asserted against NSMC or Mar-Clay or New Mar-Clay by any broker or other person claiming any finder's fee or commission by reason of services alleged to have been rendered for or at the instance of the Stockholders or any of them in respect to the execution of this Agreement or in respect to the delivery of Mar-Clay Stock to NSMC pursuant to this Agreement.

(d) NSMC agrees to and hereby does indemnify and hold harmless Mar-Clay, New Mar-Clay and the Stockholders from and against any and all claims, losses, liabilities or expenses which may be asserted against or suffered by the Stockholders, Mar-Clay, New Mar-Clay and by any broker or other person claiming any finder's fee or commission by reason of services alleged to have been rendered for or at the instance of NSMC in respect to the execution of this Agreement or in respect to the delivery of Mar-Clay Stock to NSMC pursuant to this Agreement.

(e) NSMC agrees, in the event that the transactions as herein contemplated are not consummated as herein provided, that NSMC will use its best efforts to keep confidential any information (unless readily ascertainable from public or published information or trade sources) obtained from Mar-Clay or the Stockholders concerning the properties, operations and business of Mar-Clay and will return to Mar-Clay any statements, documents or other written information obtained from Mar-Clay or the Stockholders in connection therewith.

(f) The Stockholders agree to cooperate and use their best efforts to have the present officers, directors and employees of Mar-Clay cooperate with NSMC and New Mar-Clay on and after the Effective Date in the collection of accounts and notes receivable owing to Mar-Clay on the Effective Date, and in furnishing information, evidence, testimony and other assistance in connection with any actions, proceedings, arrangements or disputes of any nature with respect to matters pertaining to all periods prior to the Effective Date.

(g) From the date hereof up to and including the Effective Date, the Stockholders agree to use their best efforts to persuade all officers, directors and employees of Mar-Clay to remain in the employment of New Mar-Clay; and the Stockholders will also use their best efforts during such period to retain, preserve and maintain the business relations of New Mar-Clay with their suppliers, customers and others.

(h) NSMC agrees that it will continue, after the Effective Date, to perform such acts and do such things so as to be, within the legal definition, doing business in the Commonwealth of Pennsylvania to the extent that NSMC shall annually be liable to pay a Franchise Tax to the Commonwealth of Pennsylvania and to be qualified as a foreign corporation doing business in the Commonwealth of Pennsylvania. NSMC agrees to maintain such qualification and pay such taxes when due for at least five years from the Effective Date.

(i) NSMC agrees that if NSMC claims any deduction from its income for federal income tax purposes for any interest attributable to the release of shares of NSMC Common Stock from escrow to the Stockholders, NSMC shall pay in cash to each of the Stockholders such Stockholder's pro rata share of the excess of (a) the amount of the Federal income tax which would have been payable by NSMC for its taxable year in which such shares are released from escrow if the amount of such interest had not been deducted over, (b) the amount of the Federal income tax payable by NSMC for such year.

(j) The parties hereto agree to use their best efforts to have the Effective Date on the effective date of the registration statement referred to in paragraph 10(e) or within forty-eight hours thereafter.

9. The obligations of NSMC to consummate the transaction as herein contemplated shall be subject to the fulfillment on or prior to the Effective Date of the following conditions:

(a) NSMC shall have received from Messrs. Blank, Rome, Klaus & Comisky, counsel for the Stockholders, at the expense of the Stockholders, a favorable opinion, dated the Effective Date, in form and substance satisfactory to NSMC and its counsel, Messrs. White & Case, to the effect that (i) Mar-Clay is duly organized and existing in good standing under the laws of Pennsylvania; (ii) Mar-Clay has the corporate power to carry on its business as then being conducted and is duly qualified as a foreign corporation doing business in Delaware, the only jurisdiction except New York where, in the opinion of such counsel, the nature of the business transacted by it makes qualification as a foreign corporation necessary; (iii) the authorized and outstanding capital stock of Mar-Clay is as represented in this Agreement, and such outstanding shares have been duly and validly authorized and issued and are fully paid and nonassessable; (iv) no provision of the Certificate of Incorporation, as amended, or the By-Laws of Mar-Clay or of any contract to which Mar-Clay is a party, of which such counsel has knowledge, prevents the consummation of the transaction in the manner contemplated hereunder; (v) there are no outstanding options or agreements of which such counsel has knowledge on the part of Mar-Clay to issue or sell any capital stock of Mar-Clay; (vi) this Agreement and the Escrow Agreement have been duly executed and delivered by the Stockholders and each is the valid and binding obligation of each of the Stockholders in accordance with its terms; and all necessary corporate action required to be taken by Mar-Clay in order to authorize the transactions herein contemplated has been taken; and (vii) to the knowledge of such counsel, Mar-Clay is not engaged in or threatened with any legal action or other proceeding, or has incurred or been charged with any presently pending violation of any Federal, state or local law or administrative regulation, which would materially adversely affect or impair the financial condition, business, operations, prospects, properties or assets of Mar-Clay, except as referred to in this Agreement; (viii) all actions and proceedings required by law to be taken by Mar-Clay at or prior to the Effective Date in connection with this Agreement and the transactions provided for herein have been duly and validly taken; and (ix) as to such other matters incident to the transactions contemplated hereby as NSMC and its counsel may reasonably request at or prior to the Effective Date. In rendering its opinion, such counsel may rely to the extent that such counsel feels justified upon certificates, affidavits or other documents signed by officers of Mar-Clay with respect to any facts necessary to enable such counsel to give its opinion.

(b) No action or proceeding before a court or any other governmental agency or body shall have been instituted or threatened to restrain or prohibit the merger and no governmental agency or body shall

have taken any other action or made any request of NSMC as a result of which the management of NSMC in good faith deems it inadvisable to proceed with the transaction.

(c) The representations and warranties of Mar-Clay and the Stockholders shall be true on and as of the Effective Date with the same effect as though all such representations and warranties had been made on and as of such date; each and all of the agreements of Mar-Clay and the Stockholders to be performed on or before the Effective Date pursuant to the terms hereof shall have been duly performed; and Mar-Clay and the Stockholders shall have delivered to NSMC a certificate dated the Effective Date and signed by them or on their behalf to both such effects.

(d) No material adverse change in the financial condition or business of Mar-Clay shall have occurred and Mar-Clay shall not have suffered any material loss or damage to any of its properties or assets, whether or not covered by insurance, since February 28, 1969, which change, loss or damage materially affects or impairs the ability of Mar-Clay to conduct its business.

(e) The Stockholders shall have executed the Escrow Agreement substantially in the form attached hereto as Exhibit B.

(f) The Stockholders of NSMC shall have approved (i) an amendment to its Certificate of Incorporation increasing the number of shares of authorized Common Stock and (ii) the merger transaction described herein. NSMC agrees to use its best efforts to obtain such approval prior to October 30, 1969. In addition, the number of shares of NSMC Common Stock owned by NSMC Stockholders exercising their rights as dissenting Stockholders under Section 73 of the Business Corporation Act of the District of Columbia shall not have exceeded 2% of the outstanding shares of NSMC Common Stock.

10. The obligation of Mar-Clay to consummate the transactions herein contemplated and of each Stockholder to accept NSMC Common Stock shall be subject to the fulfillment on or prior to the Effective Date of the following conditions:

(a) Mar-Clay and the Stockholders shall have received from Messrs. White & Case, counsel for NSMC, at NSMC's expense, a favorable opinion, dated the Effective Date, in form and substance satisfactory to Mar-Clay and the Stockholders and their counsel, Messrs. Blank, Rome, Klaus & Comisky, to the effect that (i) NSMC and its subsidiaries are corporations duly organized and validly existing in good standing under the laws of their respective states of incorporation and have the corporate power to carry on their businesses as then being conducted; (ii) NSMC is duly qualified to do business in Pennsylvania; (iii) the shares of NSMC Common Stock delivered to the Stockholders pursuant to this Agreement have been duly and validly authorized and issued and are fully paid and nonassessable, and the Stockholders have acquired absolute title thereto, free of liens and restrictions, except as set forth in this Agreement; (iv) this Agreement and the Escrow Agreement have been duly executed and delivered by authorized officers of NSMC and each is a valid obligation of NSMC legally binding upon it in accordance with its terms, and any corporate action required in order to authorize the transactions herein contemplated has been taken; and (v) all other actions and proceedings required by law to be taken by NSMC at or prior to the Effective Date in connection with this Agreement and the transactions provided for herein have been duly and validly taken; and (vi) as to such other matters incident to the transactions contemplated hereby as NSMC and its counsel may reasonably request at or prior to the Effective Date. In rendering its opinion, such counsel may rely to the extent that such counsel feels justified upon certificates, affidavits or other documents signed by officers of NSMC with respect to any facts necessary to enable such counsel to give its opinion.

(b) No material adverse change in the financial condition or business of NSMC and its subsidiaries taken as a whole shall have occurred and NSMC and its subsidiaries shall not have suffered any material loss or damage to any of their properties or assets, whether or not covered by insurance, since February 28, 1969, which change, loss or damage materially affects or impairs the ability of NSMC and its subsidiaries to conduct its business.

(c) No action or proceeding before a court or any other governmental agency or body shall have been instituted or threatened to restrain or prohibit the merger and no governmental agency or body shall have taken any other action or made any request of the Stockholders or of Mar-Clay as a result of which they deem it inadvisable in good faith to proceed with the transaction.

(d) The representations and warranties of NSMC herein contained shall be true on and as of the Effective Date with the same effect as though all such representations and warranties had been made on and as of such date; each and all of the agreements of NSMC to be performed on or before the Effective Date pursuant to the terms hereof shall have been duly performed; and NSMC shall have delivered to Mar-Clay a certificate dated the Effective Date and signed by an officer of NSMC to both such effects.

(e) NSMC shall have received an order from the Securities and Exchange Commission declaring effective under the Securities Act of 1933, as amended, a registration statement relating to the proposed sale by Stockholders of twenty-five percent of the shares of NSMC Common Stock to be received by the Stockholders pursuant to this Agreement free of escrow restrictions.

11. The Stockholders agree jointly and severally to indemnify and hold harmless NSMC from and against all claims, liabilities, losses, costs, damages or expenses (including without limitation reasonable counsel fees incurred in litigation or otherwise) arising out of or sustained by NSMC due to any breach of any representation, warranty or agreement of the Stockholders contained herein or in any certificate, schedule, exhibit or writing relating to or delivered pursuant hereto and separately identified by the signatures of the parties hereto, subject however to the limitations contained in the Escrow Agreement. To the extent that any item for which NSMC claims indemnification pursuant to this paragraph 11 adversely affects Mar-Clay's After Tax Earnings so as to reduce the number of shares to be released to the Stockholders pursuant to paragraph 3(b) hereof, the obligation hereunder shall be correspondingly reduced by the aggregate value of the NSMC Common Stock (valuing such shares at the average of the bid and asked prices for the 30 trading days preceding the return date or, if shares of NSMC Common Stock are then traded on a national securities exchange, at the average of the closing prices for the 30 trading days preceding the return date) not delivered to the Stockholders by reason thereof. Any remaining amounts which may become due and payable to NSMC pursuant to this paragraph 11 shall next be satisfied by returning to NSMC shares of NSMC Common Stock from escrow (valuing such shares as determined above). If a portion of any claim by NSMC under this paragraph 11 shall thereafter remain unsatisfied, NSMC may pursue any and all other rights and remedies which it may have either at law or in equity to obtain satisfaction thereof. NSMC shall promptly notify the Stockholders of any claim that it may have under this paragraph 11 and give the Stockholders a reasonable opportunity to defend such claim if they so desire. Notwithstanding any of the provisions of this Agreement to the contrary, the Stockholders shall be liable hereunder only to the extent that such liabilities exceed, in the aggregate, $5,000.

12. (a) Each Stockholder further represents and agrees that he has not directly or indirectly offered or disposed of or attempted to offer or dispose of any of the shares of NSMC Common Stock and that he will not so offer or dispose of or attempt to offer or dispose of any of such shares in violation of the Securities Act of 1933. The Stockholders understand that NSMC is relying upon the truth and accuracy of the foregoing representation for issuing the Common Stock to the Stockholders without first registering such NSMC Common Stock under the Securities Act of 1933. The Stockholders will and do hereby indemnify and hold harmless NSMC against all liabilities, costs and expenses, including reasonable attorneys' fees, incurred by NSMC as a result of any sale or distribution by the Stockholders of such Common Stock in violation of such Act. All certificates representing NSMC Common Stock issued pursuant to this Agreement will contain a legend in the following form: "The transfer of the shares represented by this Certificate are subject to the provisions of an Agreement between the holder hereof and National Student Marketing Corporation dated as of August 8, 1969."

(b) Each Stockholder agrees that, prior to any transfer or disposition of any shares of NSMC Common Stock, such Stockholder will give written notice to NSMC expressing his intention to effect

such transfer or disposition and describing briefly the manner of the proposed transfer or disposition of such shares of NSMC Common Stock. Promptly upon receiving such notice, NSMC shall present copies thereof to its counsel and the provisions of the following subdivisions shall apply:

(i) If in the opinion of such counsel the proposed transfer or disposition does not require registration of such shares of NSMC Common Stock under the Securities Act of 1933, as then in force or any similar Federal statute then in force or if such Stockholder shall have received a no-action letter from the Securities and Exchange Commission (a copy of which he shall have furnished to NSMC) such Stockholder shall upon receipt of such opinion from NSMC or upon the furnishing of such copy to NSMC, as the case may be, be entitled to transfer or dispose of such shares in accordance with the terms of the notice delivered by him to NSMC.

(ii) If in the opinion of such counsel the proposed transfer or disposition requires such registration of such shares of NSMC Common Stock, such Stockholder shall not proceed with such transfer or disposition unless and until NSMC shall have registered the same; provided, however, that NSMC shall be under no obligation to register any such shares except as hereinafter provided.

(iii) NSMC agrees to cause such counsel to furnish such opinion within 15 days after receipt of the above-mentioned notice.

(c) As soon as practicable after the execution of this Agreement, NSMC will file the registration statement referred to in paragraph 10(e) and will use its best efforts to make effective such registration at or prior to October 30, 1969, of the shares covered by such registration statement, all to the extent requisite to permit the sale of shares of NSMC Common Stock covered thereby. NSMC will keep effective such registration statement and from time to time amend or supplement the same and the prospectus used in connection therewith for a period of 6 months after the Effective Date to the extent necessary in order to comply with the Securities Act of 1933, as amended, (the "Act"). In addition, NSMC will use its best efforts to qualify such shares for sale under the laws of such states as shall be reasonably requested by the Stockholders provided, however, that NSMC shall not be required to qualify as a foreign corporation in any jurisdiction where it has not heretofore been qualified. The expenses in connection with any registration under this subparagraph, including without limitation, printing costs and fees and disbursements of counsel and independent accountants shall be borne by NSMC, except that any underwriters' discount and charges and applicable registration fee under the Act, allocable to Stockholders, and counsel fees and expenses of the Stockholders, shall be borne by the Stockholders.

(d) In case of any proposed registration of Common Stock of NSMC prior to the expiration of 4 years following the Effective Date, under the Act or any similar statute then in effect, upon Form S-1 or any similar form under the Act, at least 25 days prior to the filing of a registration statement for such securities, NSMC shall send written notice of such intended registration to each of the Stockholders. If within 20 days after the receipt of such notice, any Stockholder shall request in writing the registration of NSMC Common Stock issued to him pursuant to this Agreement, NSMC shall use its best efforts to register under the Act all or part of the NSMC Common Stock, as may be specified in such request, concurrently with the registration of such other NSMC stock. The Stockholders shall not be required to bear any expenses of such registration other than the registration fee under the Act applicable to the shares offered by them and the fees and expenses of their own counsel.

(e) In the event of any registration pursuant to this paragraph 12, NSMC shall indemnify such Stockholders against all losses, claims, damages and liabilities caused by any untrue statement of a material fact contained in the registration statement or prospectus (and as amended or supplemented if NSMC shall have furnished any amendments or supplements thereto), or caused by any omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except in so far as such losses, claims, damages or liabilities are caused by any untrue statement of a material fact contained in, or any material fact omitted from, information furnished in writing to NSMC by any Stockholder expressly for use therein. It shall be a condition precedent to any right of registration under this paragraph 12 that each Stockholder requesting registration shall

furnish to NSMC in writing such information as shall be reasonably requested by NSMC for use in any such registration statement or prospectus and shall agree in writing to indemnify NSMC, its directors and officers, and each person, if any, who controls NSMC within the meaning of Section 15 of the Securities Act of 1933, as amended, and any underwriter for NSMC against all losses, claims, damages and liabilities caused by any untrue statement of a material fact contained in, or any material fact omitted from, information so furnished in writing by such Stockholder. NSMC shall not be required to maintain a current prospectus more than three months (or such longer period as may be mutually agreed upon) after the date of filing any registration statement pursuant to this paragraph 12(e).

(f) Notwithstanding the foregoing provisions of this paragraph 12, (i) each Stockholder agrees that he will not, except pursuant to paragraph 12(c) hereof, dispose of any shares of NSMC Common Stock if in the opinion of NSMC's independent public accountants such disposition will result in the accounting treatment of the transaction contemplated by this Agreement being other than a "pooling of interests", and (ii) no registration need be effected, pursuant to this paragraph 12, if such registration is not required in the opinion of counsel to NSMC by the Securities Act of 1933 in order to permit the proposed transfer or disposition of NSMC Common Stock by the Stockholders.

13. NSMC hereby agrees to pay to the Stockholders the amount by which $1,600,000 exceeds the aggregate proceeds to the Stockholder from the sales of shares of NSMC Common Stock which have been registered and sold pursuant to paragraph 10(e) hereof; provided that such payment shall in no event exceed $300,000 and shall be apportioned among the Stockholders in proportion to the shares of NSMC Common Stock received by them pursuant to the provisions of this Agreement. For the purposes of the calculations provided for in this paragraph 13, the "proceeds" shall be the price received by the Stockholders from an underwriter if an underwriter is involved or, if no underwriter is involved, the actual selling price (before commissions but after discounts) received by the Stockholders; provided, however, that Stockholders shall use their best efforts to attain the best available price on the market at the time they sell such shares. Stockholders shall make available to NSMC on request all records relative to such transactions. Settlement of the above obligation shall be not later than forty-five days after the Effective Date and in the event that all of the shares to be registered and sold pursuant to paragraph 10(e) hereof have not by that time been sold, then settlement shall be pro-rata on the proportion so registered and sold. Stockholders may sell such shares from time to time, at such times as they in their best judgment deem best.

14. The representations, warranties and agreements of the parties made herein shall survive the consummation of the transactions contemplated by this Agreement and shall remain in full force and effect thereafter for a period of two years after the Effective Date, except representations, warranties and agreements with respect to the liability for and payment of Federal, state and municipal taxes which shall survive the Effective Date until six months after the date on which an audit with respect to such returns is completed. It is understood and agreed that the liability of the Stockholders as among themselves with respect to representations, warranties and agreements contained in this Agreement shall be in proportion to the shares of NSMC Common Stock received by them pursuant to the provisions of this Agreement.

15. Anything herein or elsewhere to the contrary notwithstanding and notwithstanding any shareholder vote of approval of this Agreement and the merger provided herein, this Agreement may be terminated and abandoned:

(a) By mutual consent of the Boards of Directors of Mar-Clay and NSMC;

(b) By NSMC, if, by the Effective Date, the conditions set forth in paragraph 9 hereof shall not have been met;

(c) By the Stockholders if, by the Effective Date, the conditions set forth in paragraph 10 hereof shall not have been met.

(d) By the Stockholders, if the Effective Date shall not have occurred on or prior to November 30, 1969.

16. From and after the Effective Date none of the Stockholders shall (except those continuing in the employ of New Mar-Clay and in the case of such Stockholders none of them shall subsequent to the termination of their employ) retain in any manner or form any customer lists or other confidential written information, trade secrets or innovations of any kind relating to the business of Mar-Clay nor will any of such Stockholders divulge at any time any such customer lists or written confidential information or other confidential information to persons other than directors, officers or employees of New Mar-Clay, NSMC or its subsidiaries.

17. Any notice or communication required or permitted hereunder shall be sufficiently given if sent by registered or certified mail, postage prepaid, and if to the Stockholders addressed to each at the address on the stock transfer records maintained by NSMC's Transfer Agent, with a copy thereof to Messrs. Blank, Rome, Klaus & Comisky, Four Penn Center Plaza, Philadelphia, Pa.; and if to NSMC, addressed to it at 1100 Connecticut Avenue, N.W., Washington, D. C. 20036, marked for the attention of the Secretary, with a copy thereof to Messrs. White & Case, 14 Wall Street, New York, New York 10005.

18. This Agreement and the rights of the Stockholders hereunder may not be assigned (except by operation of law or by testamentary disposition) and shall be binding upon and shall inure to the benefit of the parties hereto and successors of NSMC and Mar-Clay and to the successors and legal representatives of the Stockholders.

19. This Agreement and the Exhibits hereto and the documents delivered pursuant hereto constitute the entire agreement and understanding among the Stockholders, Mar-Clay and NSMC and supersedes any prior agreement and understanding relating to the subject matter of this Agreement.

20. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

21. Whether or not the transaction herein contemplated shall be consummated, NSMC will pay the fees, expenses and disbursements of NSMC and its counsel in connection with the subject matter of this Agreement and any amendments thereto and all other costs and expenses incurred by NSMC in performance and compliance with all conditions to be performed by it under this Agreement. The Stockholders will pay the fees, expenses and disbursements incurred by Mar-Clay or the Stockholders in connection with the subject matter of this Agreement and any amendments thereto and all other costs and expenses incurred by them in performance and compliance with all conditions to be performed by them under this Agreement.

22. This Agreement shall be construed and interpreted in accordance with the laws of the State of New York.

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Government's Exhibit 25

IN WITNESS WHEREOF, Mar-Clay and NSMC have caused their corporate names to be hereunto subscribed and their corporate seals to be hereunto affixed by its officers thereunto duly authorized the day and year first above written.

NATIONAL STUDENT MARKETING CORPORATION

By s/ CORTES W. RANDELL
President

[CORPORATE SEAL]

Attest:

s/ JOHN GLANDON DAVIES
Secretary

MAR-CLAY MILLS, INC.

By s/ HERBERT S. SACHS
President

[CORPORATE SEAL]

Attest:

s/ MORRIS GLYNN
Secretary

Confirmed and agreed to as of the date first above written:

Stockholders	Number of Mar-Clay Shares Held	Number of NSMC Shares to be Received	Number of NSMC Shares to be Escrowed
s/ DIANE GLYNN **Diane Glynn**	200	75,000	35,000
s/ MORRIS GLYNN **Morris Glynn**	200	75,000	35,000
s/ CLAIRE SACHS **Claire Sachs**	200	75,000	35,000
s/ HERBERT S. SACHS **Herbert S. Sachs**	200	75,000	35,000

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EXHIBIT A-1

ARTICLES OF MERGER

Pursuant to Sections 68 and 71 of the District of Columbia Business Corporation Act, the undersigned hereby certify:

1. A conformed copy of the Agreement and Plan of Merger between National Student Marketing Corporation ("NSMC") and Mar-Clay Mills, Inc. ("Mar-Clay") dated August 8, 1969 is attached hereto as Exhibit A and incorporated herein by reference.

2. The authorized capital stock of NSMC consists of 3,000,000 shares of Common Stock, par value $.025 per share, of which shares are issued and outstanding.

3. The authorized capital stock of Mar-Clay consists of 2,000 shares of Common Stock, $100 par value, of which 800 shares are issued and outstanding.

4. The shareholders of NSMC, a District of Columbia corporation, approved and adopted the Agreement and Plan of Merger at a Special Meeting of Shareholders held on October , 1969. The results of the vote were as follows:

For the Plan	**Against the Plan**
Shares	Shares

5. The shareholders of Mar-Clay, a Pennsylvania corporation, approved and adopted the Agreement and Plan of Merger at a Special Meeting of Shareholders held on October , 1969. The results of the vote were as follows:

For the Plan	**Against the Plan**
Shares	Shares

IN WITNESS WHEREOF, these articles have been signed this day of , 1969.

NATIONAL STUDENT MARKETING CORPORATION

By .....
President

[CORPORATE SEAL]

Attest:

By .....
Secretary

MAR-CLAY MILLS, INC.

By .....
President

[CORPORATE SEAL]

Attest:

By .....
Secretary

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EXHIBIT A-2

ARTICLES OF MERGER

Pursuant to §1903 of the Pennsylvania Business Corporation Law, the undersigned hereby certify:

(1) The name of the Surviving Corporation is National Student Marketing Corporation. The registered office is 1100 Connecticut Avenue, N.W., Washington, D.C.

(2) The names and locations of registered offices of the two constituent corporations to the Agreement and Plan of Merger are:

Mar-Clay Mills, Inc.
Rehoboth Boulevard
Milford, Delaware 19963

National Student Marketing Corporation
1100 Connecticut Avenue, N.W.
Washington, D. C.

(3) The Agreement and Plan of Merger shall be effective upon proper filing of these Articles of Merger.

(4) The shareholders of Mar-Clay Mills, Inc., a Pennsylvania corporation (herein "Mar-Clay") met on October , 1969 at 10:00 A. M. at the principal office of Mar-Clay, Rehoboth Boulevard, Milford, Delaware, to consider and adopt the Agreement and Plan of Merger. A written waiver of notice was obtained from each stockholder. The Agreement and Plan of Merger was adopted unanimously.

The shareholders of National Student Marketing Corporation, a District of Columbia corporation (herein "NSMC") met on October , 1969 at 10:00 A. M. at
to consider and adopt the Agreement and Plan of Merger. The Agreement was adopted by a vote of FOR and AGAINST.

(5) Attached hereto as Exhibit A is a conformed copy of the Agreement and Plan of Merger.

IN WITNESS WHEREOF, these Articles have been signed this day of October, 1969.

MAR-CLAY MILLS, INC.

By .....
President

[CORPORATE SEAL]

By .....
Secretary

NATIONAL STUDENT MARKETING CORPORATION

By .....
President

[CORPORATE SEAL]

By .....
Secretary

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EXHIBIT B

ESCROW AGREEMENT

AGREEMENT, dated as of , 1969 among NATIONAL STUDENT MARKETING CORPORATION, a District of Columbia corporation ("NSMC"); DIANE GLYNN, MORRIS GLYNN, CLAIRE SACHS and HERBERT S. SACHS (collectively the "Stockholders"), the holders of all of the outstanding capital stock of MAR-CLAY MILLS, INC., a Pennsylvania corporation ("Mar-Clay"); and THE RIGGS NATIONAL BANK OF WASHINGTON (the "Escrow Agent");

WHEREAS, Mar-Clay has this day merged into and with NSMC receiving in exchange shares of voting NSMC Common Stock and whereas the agreement reflecting such transaction provides that a portion of the shares of voting NSMC Common Stock to be delivered to the Stockholders be delivered to and held by the Escrow Agent subject to the terms and conditions of an Escrow Agreement; and

WHEREAS, the parties hereto have agreed upon and wish to set forth herein the terms and conditions of said Escrow Agreement with respect to the shares of NSMC Common Stock to be so delivered to and held by the Escrow Agent:

NOW, THEREFORE, it is agreed as follows:

1. *Escrow Agent.* The Escrow Agent has agreed to act as such Escrow Agent in furtherance of the provisions of an Agreement and Plan of Merger, dated as of August 8, 1969 (the "Merger Agreement"), between NSMC and Mar-Clay, and confirmed and agreed to by the Stockholders, upon the terms, conditions and provisions provided in this Escrow Agreement.

2. *Escrow of NSMC Shares.* The Stockholders and NSMC hereby designate and appoint The Riggs National Bank of Washington, as Escrow Agent to serve in accordance with the terms of this Escrow Agreement. Each of the Stockholders hereby agrees to deposit in escrow with the Escrow Agent on the Effective Date provided for in the Merger Agreement (the "Effective Date") the shares of NSMC Common Stock, par value $.025 per share, listed opposite his name on the signature page hereto (the "Escrowed Shares"), issued and delivered by NSMC to the Stockholders on the Effective Date; such shares being represented by stock certificates registered in the names of the respective Stockholders and accompanied by stock powers duly signed in blank, with signatures guaranteed by a bank, trust company or member firm of the New York Stock Exchange.

3. *Purpose of the Escrow.* To the extent herein provided, the Stockholders hereby indemnify and hold harmless NSMC against and in respect of any "Loss" or "Earnings Deficiency" (as defined in this paragraph 3) which is certified to the Escrow Agent in accordance with paragraph 4 hereof. The Escrowed Shares shall, subject to the terms and conditions of this Escrow Agreement and subject to the provisions of the Merger Agreement, be applied to indemnify and hold harmless NSMC against and in respect of the entire amount of such Loss or Earnings Deficiency. As used in this Escrow Agreement, the term "Loss" shall mean the amount of any loss, liability or reasonable and actual expense incurred by NSMC as a result of any misrepresentation or breach of warranty of the Stockholders contained in the Merger Agreement (to the extent that such liabilities exceed, in the aggregate, $5,000) and the term "Earnings Deficiency" shall mean any shares not released pursuant to paragraph 3(b) of the Merger Agreement.

4. *Certification of Loss or Earnings Deficiency to Escrow Agent.*

(a) If NSMC is of the opinion that any Loss has occurred, and desires to have Escrowed Shares applied thereto pursuant to this Escrow Agreement, NSMC shall promptly so notify the Stockholders in writing at the address provided in paragraph 13 hereof and shall transmit a copy of such notice to the Escrow Agent. Any such notice shall contain a detailed statement specifying the circumstances and

computation of such asserted Loss. Notice of any claim of Loss with respect to the Escrowed Shares must be given within the time periods designated in paragraph 14 of the Merger Agreement.

(b) The amount of any Loss asserted by NSMC by notice given pursuant to subparagraph 4(a) hereof and the number of Escrowed Shares, if any, to be returned to NSMC pursuant to paragraph 5 hereof shall be certified to the Escrow Agent in writing jointly by NSMC and the Stockholders if they agree on said amount and number, but if they cannot so agree within a period of 30 days after notice is given pursuant to subparagraph 4(a) hereof, either NSMC or the Stockholders shall be entitled within 30 days after such notice to direct submission of the matter in disagreement to arbitration in accordance with the rules and regulations of the American Arbitration Association. NSMC and the Stockholders shall promptly notify the Escrow Agent of such submission to arbitration. As promptly as possible thereafter the arbitrator(s) shall certify to the Escrow Agent, and to NSMC and the Stockholders, that there is no Loss, or, if there is a Loss, the amount thereof and the number of shares to be returned to NSMC pursuant to paragraph 5 hereof. Such certification shall contain a detailed statement specifying the circumstances and computation of any Loss. The determination of the arbitrator(s) as to the amount of the Loss and the number of Escrowed Shares to be returned to NSMC, if any, shall be conclusive and binding upon the Stockholders and NSMC. Such determination may be deferred pending the time when any Loss which is uncertain or contingent becomes fixed. The expenses of each party, including legal and accounting fees, if any, with respect to any disagreement hereunder shall be borne by such party. If the matter is submitted to arbitration, the arbitrator(s) shall designate the party or parties to bear the other expenses of such determination and/or the respective amounts to be borne by each.

(c) If an Earnings Deficiency has occurred, the Escrowed Shares shall be returned to NSMC promptly upon certification that an Earnings Deficiency has occurred to the Escrow Agent in writing jointly by NSMC and the Stockholders if they agree that such Earnings Deficiency has occurred. However, if they cannot so agree within a period of 120 days after May 31, 1973, either NSMC or the Stockholders shall be entitled to direct submission of such claim of an Earnings Deficiency to arbitration in accordance with the rules and regulations of the American Arbitration Association. NSMC and the Stockholders shall promptly notify the Escrow Agent of such submission to arbitration. As promptly as possible thereafter, the arbitrator(s) shall certify to the Escrow Agent, and to NSMC and the Stockholders, either that an Earnings Deficiency has occurred or that an Earnings Deficiency has not occurred. Such certification shall contain a detailed statement specifying the facts and circumstances upon which the arbitrator(s) relied, and the computations which the arbitrator(s) made, in reaching their determination. The determination of the arbitrator(s) shall be conclusive and binding upon NSMC and the Stockholders. The expenses of each party, including legal and accounting fees, if any, with respect to any disagreement hereunder shall be borne by such party. If the matter is submitted to arbitration, the arbitrator(s) shall designate the party or parties to bear the expenses of such determination and/or the respective amounts to be borne by each.

(d) In connection with any asserted Loss or Earnings Deficiency, NSMC will, or will cause New Mar-Clay (as identified in the Merger Agreement) to make available to the Stockholders, their counsel and accountants such records as they may reasonably request pertaining to such asserted Loss or Earnings Deficiency.

5. *Number of Shares Returnable to NSMC in the Event of Loss or Earnings Deficiency.*

(a) Upon determination pursuant to the provisions of paragraph 4 hereof of the amount of any Loss, such amount shall be divided by the then market price of the shares, determined as set forth in paragraph 11 of the Merger Agreement and the resulting figure (rounded to the nearest whole number) shall be the number of Escrowed Shares to be returned to NSMC in respect of such Loss pursuant to the provisions of this Escrow Agreement (the "Returned Shares").

(b) Upon determination pursuant to the provisions of paragraph 4 hereof of an Earnings Deficiency, all remaining Escrowed Shares shall be returned to NSMC.

6. *Delivery of Escrowed Shares to Stockholders; Return of Escrowed Shares to NSMC.*

(a) The Escrowed Shares shall, unless theretofore returned to NSMC to indemnify NSMC against a Loss, be released to the Stockholders from time to time upon receipt by the Escrow Agent of the accountants' report provided for in Exhibit C of the Merger Agreement and notice from NSMC and the Stockholders confirming agreement with such report. Adjustments to such report after the release of shares hereunder as may result from facts learned subsequent to the release date, shall be carried forward as a debit or credit toward shares yet to be released.

(b) In the event that the Escrow Agent shall not have received on or prior to September 30, 1973 a copy of any notice of a Loss or Earnings Deficiency asserted by NSMC pursuant to the provisions of paragraph 4 hereof (which Loss, if a Loss is asserted, has not been satisfied prior to such date), then promptly after such date the Escrow Agent shall deliver the Escrowed Shares to the Stockholders. In the event that NSMC shall assert any Loss hereunder on or prior to such delivery date, then the Escrow Agent shall deliver to the Stockholders only the number of Escrowed Shares in excess of the number of shares claimed by NSMC. Promptly following the making of the final computation pursuant to paragraph 5 hereof and the certification thereof to the Escrow Agent pursuant to subparagraph 4(b) hereof, the Escrow Agent shall deliver to NSMC, for immediate cancellation only, the Returned Shares, and shall deliver to the Stockholders the balance of the Escrowed Shares. Such deliveries shall be effected by the surrender by the Escrow Agent to NSMC of the stock certificates then in its possession representing Escrowed Shares, accompanied by any stock powers pertaining thereto, whereupon NSMC shall promptly issue to the Escrow Agent a new stock certificate registered in the names of the Stockholders for the number of Escrowed Shares then remaining in escrow as reduced by the number of Returned Shares, and the Escrow Agent shall retain such new stock certificates subject to the terms of this Escrow Agreement.

(c) Anything to the contrary notwithstanding, in the event that NSMC shall assert an Earnings Deficiency hereunder on or prior to September 30, 1973, the Escrow Agent shall not deliver any Escrowed Shares to the Stockholders unless and until the Escrow Agent has received, either from NSMC and the Stockholders jointly or from the arbitrator(s), certification that an Earnings Deficiency has not occurred. Upon receipt of any such certification that an Earnings Deficiency has not occurred, the Escrow Agent shall deliver the Escrowed Shares in accordance with the provisions of paragraph 6(b) above. However, upon receipt of any such certification that an Earnings Deficiency has occurred, the Escrow Agent shall deliver all the remaining Escrowed Shares to NSMC for immediate cancellation.

7. *Adjustment in Shares to Reflect Stock Dividends, Split-Up or Other Recapitalization.* In the event that, prior to any delivery of Escrowed Shares out of escrow by the Escrow Agent in accordance with the terms hereof, the outstanding shares of NSMC Common Stock shall have been without new consideration, increased, decreased, changed into or exchanged for a different number or kind of shares or securities through reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split, or other like changes in NSMC's capitalization, the notice of such change will be given to the Escrow Agent and an appropriate and proportionate adjustment shall be made in the number and kind of shares of NSMC Common Stock to be thereafter delivered hereunder.

8. *Right of Stockholders to Defend Claims.* The Stockholders shall at their expense have the opportunity to be represented by counsel of their choice in connection with the defense of any action, suit, proceeding, demand or claim brought against NSMC or New Mar-Clay in respect of which NSMC may be entitled to indemnification pursuant to paragraph 3 hereof. If the Stockholders elect to exercise this right and give notice to NSMC conceding NSMC's right to such indemnification, their counsel shall have control over the prosecution of the defense of said action, suit, proceeding, demand or claim. If after such opportunity the Stockholders or their counsel do not participate in such proceedings, they shall be bound by the results obtained by NSMC. NSMC shall give prompt written notice of any such claim to the Stockholders at the address contained in the Merger Agreement. In connection with any defense or consideration of defense by the Stockholders of any claim referred to hereinabove in this

paragraph, NSMC will make available to the Stockholders, their counsel and accountants such records as they may reasonably request pertaining to said claim. If any such claim may be settled by the Stockholders by the payment of money or other property, the Stockholders may settle such claim by their payment of such money or other property.

9. *Voting Rights, Dividend, etc.* Pending tle delivery of Escrowed Shares out of escrow pursuant to the provisions of paragraph 6 hereof, the Stockholders may exercise all voting rights with respect to the Escrowed Shares and may receive the benefit of all dividends and other distributions with respect thereto; provided, however, that any shares which are issued as stock dividends or in a split-up or other recapitalization of NSMC with respect to Escrowed Shares shall be deposited by the Stockholders as additional Escrowed Shares. All dividends paid on Returned Shares shall be repaid to NSMC by the Stockholders.

10. *Fees.* The Stockholders agree to pay the Escrow Agent for its services hereunder such reasonable fee as may be customarily charged for such services by banks in Washington, D. C. Any fee in excess of $500 per annum will be paid by NSMC.

11. *Responsibilities of Escrow Agent.* The acceptance by the Escrow Agent of its duties under this Escrow Agreement is subject to the following terms and conditions, which the parties to this Escrow Agreement hereby agree shall govern and control with respect to its rights, duties, liabilities and immunities:

(a) The Escrow Agent shall act hereunder as depositary only, and it shall not be responsible or liable in any manner whatever for the computations to be made in accordance with the formula stated in paragraph 5 hereof nor for the sufficiency, correctness, genuineness or validity of any security deposited with it.

(b) The Escrow Agent shall be protected in acting upon any written notice, request, waiver, consent, receipt or other paper or document furnished to it, not only as to its due execution and the validity and effectiveness of its provisions but also as to the truth and acceptability of any information therein contained, which it in good faith believes to be genuine and what it purports to be.

(c) The Escrow Agent shall not be liable for any error of judgment, or for any act done or step taken or omitted by it in good faith, or for any mistake of fact or law, or for anything which it may do or refrain from doing in connection herewith, except its own negligence or misconduct.

(d) The Escrow Agent may consult with, and obtain advice from, legal counsel in the event of any question as to any of the provisions hereof or its duties hereunder, and it shall incur no liability and shall be fully protected in acting in good faith in accordance with the opinion and instructions of such counsel. The cost of such services shall be added to and be a part of the Escrow Agent's fee hereunder.

(e) The Escrow Agent shall have no duties except those which are expressly set forth herein, and it shall not be bound by any notice of a claim, or demand with respect thereto, or any waiver, modification, amendment, termination or rescission of this Escrow Agreement, unless in writing received by it, and, if its duties herein are affected, unless it shall have given its prior written consent thereto.

12. *Amendment and Termination.* This Escrow Agreement may be amended or cancelled by and upon written notice to the Escrow Agent at any time given jointly by NSMC and the Stockholders, but the duties or responsibilities of the Escrow Agent may not be increased without its consent.

13. *Notices.* Any notices or other communications required or permitted hereunder shall be sufficiently given if sent by registered or certified mail, postage prepaid, if to the Stockholders addressed to them at their addresses as set forth on the stock transfer records by NSMC's Transfer Agent with a copy thereof to Messrs. Blank, Rome, Klaus & Comisky, Four Penn Center Plaza, Philadelphia, Pa.; if to NSMC addressed to it at 1100 Connecticut Avenue, N. W., Washington, D. C. 20036, marked for the attention of the Secretary, with a copy thereof to Messrs. White & Case, 14 Wall Street, New York, New

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York 10005, and if to the Escrow Agent addressed to it at 1503 Pennsylvania Avenue, N. W., Washington, D. C. marked for the attention of the Escrow Department; or in any case to such other address as shall be furnished in writing by such party. Such notices or other communications so given shall be deemed to have been given on the date so mailed.

14. *Parties in Interest.* This Escrow Agreement shall be binding upon and inure to the benefit of the respective heirs, legal representatives, successors and assigns of the parties hereto.

15. *Execution by Escrow Agent.* The execution of this Escrow Agreement by the Escrow Agent shall constitute a receipt of the Escrowed Shares and shall evidence its acceptance and agreement to the terms hereof.

IN WITNESS WHEREOF, the parties hereto have duly caused this Escrow Agreement to be executed as of the date first above written.

NATIONAL STUDENT MARKETING CORPORATION

By.....
President

[CORPORATE SEAL]

Attest:

.....
Secretary

THE RIGGS NATIONAL BANK OF WASHINGTON

By.....
Trust Officer

[CORPORATE SEAL]

Attest:

.....
Assistant Secretary

No. of Escrowed Shares	Stockholders
35,000	Diane Glynn
35,000	Morris Glynn
35,000	Claire Sachs
35,000	Herbert S. Sachs

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EXHIBIT C

DETERMINATION OF AFTER TAX EARNINGS

I. For purposes of this Agreement, the "After Tax Earnings" of Mar-Clay, with respect to each of the years ending May 31, 1970, through May 31, 1973, inclusive, shall be determined in the following manner:

1. Mar-Clay, as used in this Exhibit C, means Mar-Clay and any division or subsidiary of NSMC which succeeds to the business of Mar-Clay. There shall first be determined the gross revenues of Mar-Clay for such year, by application of the accrual method of accounting, and generally accepted principles of accounting as reflected in the May 31, 1969 financial statements of Mar-Clay in arriving at gross profit for accounting purposes. There shall, however, be excluded any extraordinary item of income derived from any transaction not in the ordinary course of Mar-Clay's business to the extent that such extraordinary income exceeds extraordinary losses as hereinafter defined.

2. There shall then be determined the "expenses" of Mar-Clay for such year, which shall consist of "current expenses", "allocable capital expenditures" and "extraordinary losses."

(a) For this purpose, "current expenses" shall consist of those expenses incurred by Mar-Clay which are allocable to the year pursuant to the accrual method of accounting and pursuant to generally accepted principles of accounting consistently applied in arriving at net income for accounting purposes, subject to the following provisions and exceptions:

(i) Current expenses shall include:

A. The usual operating, selling, and general administrative expenses incurred by Mar-Clay applicable to income earned in the same period, and shall exclude prepaid expenses with respect to any income which is to be realized in a subsequent period except that portion applicable to the current year according to generally accepted accounting principles, and start-up expenses of new programs the cost of which is to be amortized over a 3-year or more period following the period the expense was incurred except that portion applicable to the current year according to generally accepted accounting principles (unless the program is discontinued, in which event the balance of the unamortized expense is to be written off in the fiscal year the program is discontinued);

B. The aggregate amount of all taxes (other than Federal and applicable state income taxes) imposed on Mar-Clay with respect to the particular year;

C. The amount of interest on funds borrowed by Mar-Clay from NSMC, computed at the prime rate as shall be charged by First National City Bank during the period of the loan, or the actual cost to NSMC (including the actual cost of maintaining balances) if it pays more interest during the period of the loan;

D. The cost to NSMC of any services, exclusive of general or administrative expenses or charges for management, consulting, or advisory services performed by NSMC personnel, performed for or on behalf of Mar-Clay by NSMC or any of its divisions or departments, except that commercial items (advertising, etc.) will be sold to Mar-Clay at the same price or rates and subject to the same discounts as contemporaneously apply to such sales to other divisions and departments of NSMC.

(ii) Current expenses shall reflect such charges and credits to reserve accounts with respect to Accounts and Notes Receivable, uninsured casualty losses, inventory or any other assets (other than capital or fixed assets) as shall be deemed necessary in the light of the actual experience of Mar-Clay.

(iii) Current expenses for this purpose shall not include any allocation of general or administrative expense of NSMC or any subsidiary or affiliate thereof.

(b) For this purpose "allocable capital expenditures" shall constitute the "capital expenditures" of Mar-Clay allocable to the particular calendar year pursuant to the following principles:

(i) Capital expenditures made by Mar-Clay in connection with the acquisition of property which under the Federal income tax laws would constitute depreciable property shall be depreciated on a straight-line basis over the useful life which would be assigned to such property under the so-called guidelines promulgated by the Internal Revenue Service in Revenue Procedure 62-21, as amended.

(ii) Capital expenditures made by Mar-Clay in connection with its acquisition of the right to the use of property for a limited and determinable period of time shall be amortized in equal installments over such period of time.

(iii) After Tax Earnings shall be computed consistent with the present accounting policies employed by Mar-Clay. In the way of example but not by way of limitation, After Tax Earnings shall not be in any way effected by any adjustment in the value of assets which are on the books of Mar-Clay or by any change in the depreciation policy or capitalizing (rather than expensing) policy of Mar-Clay or the method of calculating depreciation, or the number of years over which a capital asset is depreciated.

(c) For this purpose, "extraordinary losses" shall consist of all losses not incurred in the ordinary course of business of Mar-Clay.

3. There shall then be subtracted from the gross revenues of Mar-Clay for the particular fiscal year, as determined pursuant to Section I:1 hereof, the "expenses" of Mar-Clay for such year, as determined pursuant to Section I:2 hereof, and the difference shall constitute the "net before tax earnings" of such year.

4. There shall then be determined the amount of Federal and applicable state income taxes which would be imposed on Mar-Clay computed separately as if the net before tax earnings, as determined pursuant to Section I:3 hereof, constituted the actual taxable income of Mar-Clay for such fiscal year. The computation shall be made as if separate returns were filed, and for Federal purposes, as though Mar-Clay will have made the election under Section 1562(a) of the Internal Revenue Code of 1954 as now in effect. Mar-Clay shall be credited with any benefits accruing by reason of the investment tax credit provided under Section 38 of such Code. If the investment tax credit shall, during such period, be eliminated, then no such benefit shall accrue.

5. There shall be subtracted from the net before tax earnings, as determined pursuant to Section I:3 hereof, the total amount of such Federal and applicable state income taxes, as determined pursuant to Section I:4 hereof. The difference shall constitute the After Tax Earnings for such year for Mar-Clay.

6. In the event the expenses for any particular year, as determined under Section I:2 hereof, shall exceed in amount the gross earnings for such year, as determined under Section I:1 hereof, the amount of such excess shall carry forward to the next fiscal year, and shall be added to and treated as part of the expenses of that year for purposes of Section I:2 hereof, provided, however, that the amount to be carried forward shall be adjusted to reflect any tax benefits accruing to NSMC as a result thereof.

II. A computation of the "After Tax Earnings" for each of the fiscal years during the period 1970-73 will be prepared in accordance with the foregoing principles by a national firm of public accountants as shall be designated by NSMC.

III. In the event that NSMC or the Stockholders disagree as to any portion of such computation or the application of the aforesaid principles to the determination of the "After Tax Earnings" for any particular year, and that such disagreement cannot be settled within 30 days after submission of the report, the portion in disagreement shall be determined by such independent firm of certified public accountants as shall be mutually agreed upon by NSMC and the Stockholders, or if they cannot reach such agreement promptly, then, upon the demand of any interested party by the firm of Lybrand, Ross Bros. & Montgomery, unless it is then the accounting firm for NSMC, in which event such firm shall be Arthur Young & Co. Such determination shall be final and binding upon the parties hereto.

E 364

Government's Exhibit 25

SCHEDULE G

AGREEMENT AND PLAN OF MERGER dated August 8, 1969 by and between NATIONAL STUDENT MARKETING CORPORATION, a District of Columbia corporation ("NSMC"), and MAILBAG INTERNATIONAL, INC., a New York corporation ("Mailbag").

WITNESSETH:

WHEREAS, the respective Boards of Directors of NSMC and Mailbag deem it advisable for the general welfare and advantage of the respective corporations and their shareholders that Mailbag be merged into NSMC pursuant to this Agreement and the applicable laws of the State of New York and the District of Columbia; and

WHEREAS, to effect such merger Mailbag will be merged into NSMC and the holders of Mailbag Common Stock (the "Stockholders") will receive in exchange for their shares of Mailbag Common Stock, without par value ("Mailbag Stock"), 38,637 shares of NSMC Common Stock;

NOW, THEREFORE, in consideration of the mutual agreements and conditions herein contained, NSMC and Mailbag hereby agree each with the other, in accordance with the applicable laws of the State of New York and the District of Columbia, that Mailbag shall be merged into NSMC (which in its capacity as the surviving corporation is sometimes hereinafter called the "Surviving Corporation"), and the terms and conditions of the merger and the mode of carrying them into effect are and shall be as follows:

1. When this Agreement and the transactions contemplated hereby have been approved and the Articles of Merger, substantially in the form attached hereto as Exhibit A, required by Sections 68 and 71 of the Business Corporation Act of the District of Columbia have been filed in accordance with the provisions of such law, and the Certificate of Merger, substantially in the form attached hereto as Exhibit B, required by Section 907 of the New York Business Corporation Law has been filed in accordance with the provisions of such Law, the separate existence of Mailbag shall cease and it shall be merged into NSMC. The date on which such recording and filing have been completed and the transaction contemplated hereby becomes effective shall be known as the "Effective Date".

2. The laws which are to govern the Surviving Corporation are the laws of the District of Columbia. The Articles of Incorporation of NSMC shall, on the Effective Date, be the Articles of Incorporation of the Surviving Corporation, from and after the Effective Date, subject always to the right of the Surviving Corporation to amend its Articles of Incorporation in accordance with the laws of the District of Columbia. The By-Laws of the Surviving Corporation shall be the By-Laws of NSMC as in effect on the Effective Date, until changed or amended as provided therein.

3. (a) On the Effective Date, NSMC will issue 858.6 shares of NSMC Common Stock for each one share of Mailbag Common Stock outstanding on the Effective Date, which shares of NSMC Common Stock shall be exchanged for Mailbag Common Stock on the Effective Date by the parties hereto.

(b) Immediately upon receipt of the shares as set forth in paragraph (a) above, the Stockholders will deliver to First National City Bank, New York, New York, as Escrow Agent pursuant to an Escrow Agreement, substantially in the form and substance of Exhibit C hereto (the "Escrow Agreement"), 3,864 shares of NSMC Common Stock (the "Escrowed Shares"), to be released from escrow and delivered to the Stockholders in accordance with the terms of this Agreement and the Escrow Agreement.

4. Except as provided herein, upon the merger becoming effective, all the rights, privileges, powers and franchises and all property and assets of every kind and description of Mailbag and NSMC, including, without limitation, trade names, names, licenses and registrations, and the good will relating to any

of the foregoing, shall be vested in and be held and enjoyed by the Surviving Corporation, without further act or deed, and all the estates and interests of every kind of Mailbag and NSMC, including all debts due to any of them on whatever account, shall be as effectually the property of the Surviving Corporation as they were of Mailbag and NSMC, and the title to any real estate vested by deed or otherwise in Mailbag and NSMC shall not revert or be in any way impaired by reason of the merger; and all rights of creditors and all liens upon any property of Mailbag and NSMC shall be preserved unimpaired and all debts, liabilities and duties of Mailbag and NSMC shall thenceforth attach to the Surviving Corporation and may be enforced against it to the same extent as if said debts, liabilities and duties had been incurred or contracted by it.

5. NSMC, Mailbag and the Stockholders agree to execute and deliver the Escrow Agreement on the Effective Date.

6. Mailbag represents, warrants and agrees as follows:

(a) Mailbag is a corporation duly organized and validly existing in good standing under the laws of the State of New York with the power to own its property and to carry on its business as now being conducted, and there is no jurisdiction in which the character of the properties owned or the nature of the business conducted by it makes qualifications as a foreign corporation necessary.

(b) Mailbag has no subsidiaries or affiliates.

(c) The authorized capital stock of Mailbag consists of 20,000 shares of Common Stock, $1 par value, of which 45 of such shares are issued and outstanding. Such issued shares have been validly authorized and issued and are fully paid and non-assessable. Mailbag has no outstanding options, warrants or other rights, calls or commitments to purchase capital stock of Mailbag, and there are no outstanding options, warrants, rights, calls, commitments, conversion rights, plans or other agreements of any character providing for the purchase of any authorized but unissued Mailbag shares. Prior to the Effective Date, Mailbag will not issue any shares of capital stock, authorize any increase in the number of shares of its authorized capital stock or issue any options or rights to subscribe for or purchase shares of its capital stock.

(d) Mailbag has furnished NSMC with a balance sheet of Mailbag as of December 31, 1968 and an income statement for the twelve month period then ended, certified by Pustorino, Puglisi, Behan & Co., certified public accountants. Mailbag has also furnished NSMC with a balance sheet of Mailbag as at May 31, 1969 and an income statement for the nine month period then ended, prepared by Mailbag and certified by the principal accounting officer of Mailbag. Such financial statements are true and correct and have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods involved. The balance sheets fairly present the condition of Mailbag as of the dates thereof, and reflect all known claims against and debts and liabilities (including adequate provision for all taxes), fixed or contingent, as at the date thereof, and the income statements accurately present the results of the operations of Mailbag for the periods indicated subject in the case of the nine months ended May 31, 1969, to year-end audit adjustments. Neither such balance sheets nor such income statements contain any untrue statement of a material fact, or omit to state any material fact necessary in order to make the statements contained in this paragraph or therein not misleading.

(e) Except for such claims, debts and liabilities as are reflected in the May 31, 1969 balance sheet referred to in paragraph 6(d) above, Mailbag has no outstanding indebtedness and is not subject to any claims or liabilities other than trade or business obligations incurred in the ordinary course of business. Without the prior written consent of NSMC, except to the extent of its existing line of credit ($150,000) with The Morgan Guaranty Trust Company of New York, Mailbag will not incur, prior to the Effective Date, any additional indebtedness for money borrowed or incur any liabilities other than in the ordinary course of business.

(f) Since May 31, 1969, except as may heretofore have been disclosed in writing to NSMC, Mailbag has not issued, or declared or paid any dividend on, or declared or made any distribution on, or authorized the creation or issuance of, or effected any split-up or any recapitalization of, any of its stock of any class, or directly or indirectly redeemed, purchased or otherwise acquired any of its outstanding stock, or authorized or made any change in its Certificate of Incorporation or agreed to take any such action.

(g) Mailbag has filed all requisite Federal income, payroll and excise tax returns and all appropriate state and local income, sales, payroll, personal property and franchise tax returns required to be filed by it and has paid all taxes and assessments (including interest or penalties) owed by it to the extent that such taxes and assessments have become payable. To the extent that such taxes and assessments and any subsequent tax liabilities have accrued but have not become payable, the full amounts thereof have been reflected as liabilities on Mailbag's books. In addition, Mailbag has paid all taxes which would not require the filing of returns and which are required to be paid by it. The Federal income tax returns of Mailbag for the years prior to and including 1964 have been examined by the Internal Revenue Service and no penalty or deficiency has been asserted for such years. The Federal income tax returns of Mailbag for the years 1965 to and including 1968 are presently under review and no penalty or deficiency has been assessed for such years. To the extent that any assessment or penalty becomes payable with respect to such period, Mailbag will indemnify and hold harmless NSMC from and against all but the first $30,000 of such amount.

(h) Mailbag owns no real property. Mailbag has good and marketable title to all its personal and intangible property, including the personal and intangible property reflected in the most recent balance sheet delivered pursuant to paragraph 6(d) above, with such changes in such personal and intangible property as have been made since such dates, in the ordinary course of business. None of such personal and intangible property is subject (i) to a contract of sale, except inventory to to be sold in the ordinary course of business or (ii) to mortgages, pledges, liens, encumbrances, security interests or charges of any kind or character except as herein disclosed. All buildings, structures and appurtenances and all machinery and equipment leased by Mailbag are in good operating condition and in a state of good maintenance and repair, and are adequate and suitable for the purposes for which they are presently being used.

(i) Mailbag does not hold under lease any real or personal property except as set forth in Exhibit D hereto. Each lease set forth in Exhibit D is in full force and effect; all rents and additional rents due to date on each such lease have been paid; in each case the lessee has been in peaceable possession since the commencement of the original term of such lease and is not in default thereunder and no waiver, indulgence or postponement of the lessee's obligations thereunder has been granted by the lessor; and there exists no event, occurrence, condition or act which, with the giving of notice, the lapse of time or the happening of any further event or condition would become a default under any such lease. Mailbag has not violated any of the terms or conditions under any such lease and all of the covenants to be performed by the lessee under each such lease have been fully performed.

(j) Attached hereto as Exhibit E is a true and correct list of all policies of insurance of Mailbag including the amounts thereof, in force as at the date hereof, and such policies are in full force and effect. Mailbag will continue to maintain all of such policies or renewals thereof in full force and effect up to and including the Effective Date.

(k) Except as set forth in Exhibit F hereto, Mailbag owns, possesses or licenses no trade secret, technical information, patent, patent right, application for patent, trademark, trade name, copyright, process or formula used in its business. Except as noted on such exhibit, no trademark or trade name infringes on others, none is owned by or licensed to any other person, firm or corporation in the United States or elsewhere, no proceedings have been instituted or are pending or threatened which challenge the sole and exclusive ownership thereof by Mailbag and none is

subject to any proceeding or action attacking or contesting its validity. Except as set forth in Exhibit F attached hereto, Mailbag has full right, title and ownership to its corporate name and any and all other names under which it does business. Mailbag possesses valid rights to use all trademarks, trade names, and all licenses now used and necessary to conduct its business as presently being conducted.

(l) Except as set forth in Exhibit G hereto, there are no actions, suits or proceedings pending or threatened against or affecting Mailbag, at law or in equity, by or before any Federal, state or municipal court or other governmental department, commission, board, bureau, agency or instrumentality which would adversely affect or impair the financial condition, business, operations, prospects, and assets of Mailbag. Mailbag is subject to no liability by reason of a violation of any order, rule, or regulation of or default with respect to any tax return or any other return or report payable to or required to be filed with, any Federal, state, municipal or other governmental agency, department, commission, bureau, board or instrumentality to which it is subject.

(m) Except as set forth in Exhibit H, Mailbag has no collective bargaining agreements with employees, executive employment agreements, executive compensation plans, employees' pension or retirement plans or pension trusts, employees' profit sharing or bonus or stock purchase plans or any other similar agreements or plans. Between the date hereof and the Effective Date, Mailbag will not, without the written consent of NSMC, make or agree to make any increase in the rate of wages, salaries, bonuses or other remuneration of any employee or employees, or become a party to any employment contract or arrangement with any of its officers or employees other than contracts which are terminable at will or subject to termination on not more than one month's notice, or become a party to any contract or arrangement with any officers or employees providing for bonuses or profit-sharing payments, severance pay or retirement benefits.

(n) Attached hereto as Exhibit I is a true and correct list of all outstanding contracts, agreements or understandings to which Mailbag is a party, except (i) those referred to elsewhere in this paragraph 6, (ii) any contract, agreement or understanding involving an aggregate expenditure by Mailbag of less than $5,000, and (iii) purchase orders to suppliers and sales orders from customers, issued or accepted in the ordinary course of business. Neither Mailbag nor any other party to any such contract, agreement or understanding is in default under the terms of any such contract, agreement or understanding. Between the date hereof and the Effective Date, Mailbag will not, without the written consent of NSMC, make any changes or modifications in any such contracts, agreements or understandings, or incur any further obligations or surrender any rights thereunder, or make any further additions to its property or further purchases of equipment except such changes or modifications, each in an amount less than $5,000, as are in the ordinary course of business or are necessary or appropriate to maintain its properties and equipment. Mailbag is not a party to any continuing contract for the future purchase of materials, supplies or equipment in excess of the requirements for its business as now being conducted.

(o) Mailbag is not subject to any order, judgment or decree with respect to its business or condition or any of its assets or property, or to any charter, by-law, mortgage, lease, agreement, instrument, order, judgment or decree which would prevent the consummation of the transactions contemplated hereunder, or compliance by Mailbag or the Stockholder with the terms, conditions and provisions hereof.

(p) All outstanding accounts receivable (trade or other) of Mailbag, as set forth in the May 31, 1969 balance sheet and its books and records, are collectible except to the extent of the applicable reserve for bad debts.

(q) Since May 31, 1969 the business and properties of Mailbag have not been adversely affected in any way as a result of any legislative or regulatory change, revocation of any license or right to do business, fire, explosion, accident, casualty, labor trouble, flood, drought, riot, storm, condemnation, or act of God or other public force or otherwise.

(r) The copies of Mailbag's Certificate of Incorporation and By-Laws, as amended to date, certified by its Secretary, heretofore delivered to NSMC, and of all instruments, agreements or other documents that may have been delivered to NSMC pursuant to the terms of this Agreement, are and will be complete and correct as of the date hereof and as of the Effective Date.

(s) Mailbag has maintained its books of account in the usual, regular and ordinary manner in accordance with generally accepted accounting principles applied on a consistent basis.

(t) In the negotiations leading up to the transaction contemplated by this Agreement, Mailbag has not retained or utilized the services of any broker or finder.

(u) During the period from the date hereof to and including the Effective Date, Mailbag will conduct its business solely in the usual and ordinary manner and will refrain from any transactions not in the ordinary course of business unless the prior written consent of NSMC to such transactions has been obtained except to the extent Mailbag is prevented from so doing by NSMC.

(v) The execution and performance of this Agreement by Mailbag have been duly authorized by proper corporate action and such execution and performance are within its corporate powers.

7. NSMC represents, warrants and agrees as follows:

(a) NSMC is a corporation duly organized, validly existing and in good standing under the laws of the District of Columbia.

(b) As of August 8, 1969, the authorized capital stock of NSMC consisted of 3,000,000 shares of Common Stock, par value $.025 per share, of which 2,904,555 shares (excluding 7,934 shares held in the treasury of NSMC) were outstanding. Such outstanding shares have been validly issued and are fully paid and nonassessable.

(c) The consolidated financial statements of NSMC as at August 31, 1968 contained in its 1968 Annual Report to Stockholders, certified by Peat, Marwick, Mitchell & Co., and the unaudited consolidated statement of earnings as reported to its shareholders for the six months ended February 28, 1969 prepared by NSMC, are true and correct and fairly present the financial position of NSMC and its subsidiaries as of such dates, and the results of their operations for the periods then ended, subject in the case of the six month statement to year-end audit adjustments.

(d) In the negotiations leading up to the transaction contemplated by this Agreement, NSMC has not, except as heretofore disclosed to the Stockholders in writing, retained or otherwise utilized the services of any broker or finder.

(e) The execution and performance of this Agreement by NSMC have been duly authorized by proper corporate action, subject to obtaining requisite stockholder approval, and such execution and performance are within its corporate powers.

(f) Except as set forth in a schedule heretofore delivered by NSMC to Mailbag, the stock of NSMC is not subject to any options, calls or warrants requiring issuance at future dates of shares of such stock.

8. NSMC and Mailbag agree as follows:

(a) NSMC and its authorized representatives shall, from and after the date hereof, have full access to the properties and the books and records of every kind of Mailbag, and the officers of Mailbag will furnish NSMC with such financial and operating data and other information as to the business and properties of Mailbag and copies of all documents referred to herein or in any list delivered hereunder, as NSMC shall from time to time request. The Stockholders will cause Mailbag and its officers and employees to comply with all of the conditions of this Agreement relating thereto. From and after the date hereof and prior to the Effective Date, the Stockholders will

consult, and will use their best efforts to have the executive officers of Mailbag consult, with NSMC's management with respect to the operation and management of Mailbag.

(b) Mailbag and NSMC each agrees to execute and deliver or cause to be executed and delivered such additional instruments as the other party may reasonably request for the purpose of carrying out this Agreement.

(c) The Stockholders agree to and do hereby indemnify and hold harmless NSMC from and against any and all claims, losses, liabilities or expenses which may be asserted against NSMC or Mailbag by any broker or other person claiming any finder's fee or commission by reason of services alleged to have been rendered for or at the instance of the Stockholders in respect to the execution of this Agreement or in respect to the consummation of the transactions herein contemplated.

(d) NSMC agrees to and hereby does indemnify and hold harmless the Stockholders from and against any and all claims, losses, liabilities or expenses which may be asserted against or suffered by the Stockholders by any broker or other person claiming any finder's fee or commission by reason of services alleged to have been rendered for or at the instance of NSMC in respect to the execution of this Agreement or in respect to the transactions herein contemplated.

(e) NSMC agrees, in the event that the transactions as herein contemplated are not consummated as herein provided, that NSMC will use its best efforts to keep confidential any information (unless readily ascertainable from public or published information or trade sources) obtained from Mailbag or the Stockholders concerning the properties, operations and business of Mailbag and will return to Mailbag any statements, documents or other written information obtained from Mailbag or the Stockholders in connection therewith.

(f) The Stockholders agree to cooperate and use their best efforts to have the present officers, directors and employees of Mailbag cooperate with NSMC on and after the Effective Date in the collection of accounts and notes receivable owing to Mailbag on the Effective Date, and in furnishing information, evidence, testimony and other assistance in connection with any actions, proceedings, arrangements or disputes of any nature with respect to matters pertaining to all periods prior to the Effective Date.

(g) The Stockholders agree to use their best efforts to persuade all officers, directors and employees of Mailbag to remain in the employment of Mailbag and of the Surviving Corporation or a subsidiary thereof both during the period from the date hereof to the Effective Date and thereafter; the Stockholders will also use their best efforts to retain, preserve and maintain for the Surviving Corporation and its subsidiaries the business relations of Mailbag with its suppliers, customers and others.

9. The obligations of NSMC to consummate the transactions herein contemplated shall be subject to the fulfillment on or prior to the Effective Date of the following conditions:

(a) NSMC shall have received from Messrs. Gifford, Woody, Carter and Hays, counsel for Mailbag, at the expense of Mailbag, a favorable opinion, dated the Effective Date, in form and substance satisfactory to NSMC and its counsel, Messrs. White & Case, to the effect that (i) Mailbag is duly organized and existing in good standing under the laws of New York; (ii) Mailbag has the corporate power to carry on its business as then being conducted and there is no jurisdiction where, in the opinion of such counsel, the nature of the business transacted by it makes qualification as a foreign corporation necessary; (iii) the authorized and outstanding capital stock of Mailbag is as represented in this Agreement, and such shares have been duly and validly authorized and issued and are fully paid and non-assessable; (iv) no provision of the Certificate of Incorporation, as amended, or the By-Laws of Mailbag or of any contract to which Mailbag is a party prevents the consummation of the transaction in the manner contemplated hereunder; (v) there are no

outstanding options or agreements on the part of Mailbag to issue or sell any capital stock of Mailbag; (vi) this Agreement and the Escrow Agreement, herein referred to, have been duly executed and delivered by Mailbag and the Stockholders and each is the valid and binding obligation of Mailbag and of the Stockholders in accordance with its terms and any corporate action by Mailbag required in order to authorize the transactions herein contemplated has been taken; (vii) except as set forth in Exhibit G to this Agreement, to the knowledge of such counsel, Mailbag is not engaged in or threatened with any legal action or other proceeding, nor has incurred or been charged with any presently pending violation of any Federal, state or local law or administrative regulation, which would materially adversely affect or impair the financial condition, business, operations, prospects, properties or assets of Mailbag; (viii) all other actions and proceedings required by law or by this Agreement to be taken by Mailbag at or prior to the Effective Date in connection with this Agreement and the transactions provided for herein have been duly and validly taken; and (ix) as to such other matters incident to the transactions contemplated hereby as NSMC and its counsel may reasonably request at or prior to the Effective Date. In rendering its opinion, such counsel may rely to the extent that such counsel feels justified upon certificates, affidavits or other documents signed by officers of Mailbag with respect to any facts necessary to enable such counsel to give its opinion.

(b) No action or proceeding before a court or any other governmental agency or body shall have been instituted or threatened to restrain or prohibit the merger herein contemplated and no governmental agency or body shall have taken any other action or made any request of NSMC as a result of which the management of NSMC deems it inadvisable to proceed with the transaction.

(c) The representations and warranties of Mailbag shall be true on and as of the Effective Date with the same effect as though all such representations and warranties had been made on and as of such date; each and all of the agreements of Mailbag to be performed on or before the Effective Date pursuant to the terms hereof shall have been duly performed; and Mailbag by its President shall have delivered to NSMC a certificate dated the Effective Date to both such effects.

(d) No material adverse change in the financial condition or business of Mailbag shall have occurred and Mailbag shall not have suffered any material loss or damage to any of its properties or assets, whether or not covered by insurance, since May 31, 1969, which change, loss or damage materially affects or impairs the ability of Mailbag to conduct its business.

(e) The Stockholders shall have executed the Escrow Agreement substantially in the form attached hereto as Exhibit C.

(f) NSMC shall have received a balance sheet of Mailbag as at August 31, 1969 and a Statement of Income for the eight months then ending prepared by Pustorino, Puglisi, Behan & Co., independent accountants, on a basis consistent with that applied to prior periods. Such financial statements shall reflect net after tax earnings of not less than $90,000.

(g) The Stockholders of NSMC shall have (i) approved an amendment to its Certificate of Incorporation increasing the number of shares of authorized Common Stock to 7,500,000, par value $.01 per share, and (ii) approved the merger transaction described herein. In addition, the number of shares of NSMC Common Stock held by NSMC Stockholders exercising their rights as dissenting stockholders under Section 73 of the Business Corporation Act of the District of Columbia shall not have exceeded two percent of the outstanding shares of NSMC Common Stock.

(h) The Effective Date shall be on or before February 1, 1970.

10. The obligation of Mailbag to consummate the transactions herein contemplated shall be subject to the fulfillment on or prior to the Effective Date of the following conditions:

(a) Mailbag shall have received from Messrs. White & Case, counsel for NSMC, at NSMC's expense a favorable opinion, dated the Effective Date, in form and substance satisfactory to Mail-

bag and to Mailbag's counsel, Messrs. Gifford, Woody, Carter & Hays, to the effect that (i) NSMC is a corporation duly organized and validly existing in good standing under the laws of the District of Columbia and has the corporate power to carry on its business as then being conducted; (ii) the shares of NSMC Common Stock delivered to the Stockholder pursuant to this Agreement have been duly and validly authorized and issued and are fully paid and non-assessable; (iii) this Agreement has been duly executed and delivered by authorized officers of NSMC and is a valid obligation of NSMC legally binding upon it in accordance with its terms; (iv) all other actions and proceedings required by law or by this Agreement to be taken by NSMC at or prior to the Effective Date in connection with this Agreement and the transactions provided for herein have been duly and validly taken; and (v) as to such other matters incident to the transactions contemplated hereby as Mailbag and its counsel may reasonably request at or prior to the Effective Date.

(b) No action or proceeding before a court or any other governmental agency or body shall have been instituted or threatened to restrain or prohibit the merger herein contemplated and no governmental agency or body shall have taken any other action or made any request of Mailbag or the Stockholder as a result of which they deem it inadvisable to proceed with the transaction.

(c) The representations and warranties of NSMC herein contained shall be true on and as of the Effective Date in all material respects with the same effect as though all such representations and warranties had been made on and as of such a date; each and all of the agreements of NSMC to be performed on or before the Effective Date pursuant to the terms hereof shall have been duly performed; and NSMC shall have delivered to Mailbag a certificate dated the Effective Date and signed by an officer of NSMC to both such effects.

(d) NSMC shall have received an order from the Securities and Exchange Commission declaring effective under the Securities Act of 1933, as amended, a registration statement relating to the proposed sale by Stockholders of shares of NSMC Common Stock to be received by George W. Schiele pursuant to this Agreement.

(e) The Effective Date shall be on or before February 1, 1970.

11. The Stockholders agree to indemnify and hold harmless NSMC from and against all claims, liabilities, losses, costs, damages or expenses (including without limitation reasonable counsel fees incurred in litigation or otherwise) arising out of or sustained by NSMC due to any breach of any representation, warranty or agreement of Mailbag or the Stockholders contained herein or in any certificate, schedule, exhibit or writing relating to or delivered pursuant hereto; provided, however, that with respect to the representations of Mailbag in paragraph 6(d), 6(s), 6(v) and the last sentence of paragraph 6(h), the Stockholders shall represent only to their best knowledge and belief. Notwithstanding anything in the foregoing to the contrary (a) the Stockholders shall have no liability hereunder beyond a period of two years from the Closing Date and (b) there shall be no liability on the part of Stockholders unless such claims, liabilities, losses, costs, damages or expenses of NSMC exceed in the aggregate the sum of $1,250 in which event NSMC shall have recourse against Stockholders for the entire amount thereof. NSMC shall promptly notify the Stockholders of any claim that it may have under this paragraph 11.

12. The Stockholders represent and agree that they have not directly or indirectly offered or disposed of or attempted to offer or dispose of any of the shares of NSMC Common Stock and that they will not so offer or dispose of or attempt to offer or dispose of any such shares in violation of the Securities Act of 1933. The Stockholders understand that NSMC is relying upon the truth and accuracy of the foregoing representation for issuing the Common Stock to the Stockholders without first registering such NSMC Common Stock under the Securities Act of 1933. The Stockholders will and do hereby indemnify and hold harmless NSMC against all liabilities, costs and expenses, including reasonable attorneys' fees, incurred by NSMC as a result of any sale or distribution by the Stockholders of such NSMC Common Stock in violation of such Act. All certificates representing NSMC Common Stock issued pursuant to this Agreement will contain a legend in the following form: "These securities have

not been registered under the Federal Securities Act of 1933, as amended. They may not be sold or offered for sale in the absence of an effective registration statement as to the securities under that act, or an opinion of counsel satisfactory to NSMC that such registration is not required."

(b) Each Stockholder agrees that, prior to any transfer or disposition of any shares of NSMC Common Stock, he will give written notice to NSMC expressing his intention to effect such transfer or disposition and describing briefly the manner of the proposed transfer or disposition of such shares of NSMC Common Stock. Promptly upon receiving such notice, NSMC shall present copies thereof to its counsel and the provisions of the following subdivisions shall apply:

(i) If in the opinion of such counsel the proposed transfer or disposition does not require registration of such shares of NSMC Common Stock under the Securities Act of 1933, as then in force or any similar Federal statute then in force (of which opinion NSMC will notify such Stockholder as promptly as practicable) or, if such Stockholder shall have received a no-action letter from the Securities and Exchange Commission (a copy of which he shall have furnished to NSMC) such Stockholder shall upon receipt of such opinion from NSMC or upon the furnishing of such copy to NSMC, as the case may be, be entitled to transfer or dispose of such shares in accordance with the terms of the notice delivered by him to NSMC.

(ii) If in the opinion of such counsel the proposed transfer or disposition requires such registration of such shares of NSMC Common Stock, such Stockholder shall not proceed with such transfer or disposition unless and until NSMC shall have registered the same; provided, however, that NSMC shall be under no obligation to register any such shares except as hereinafter provided.

(c) In the case of any proposed registration in the thirty-six months next succeeding the Effective Date of NSMC Common Stock on Form S-1 under the Securities Act of 1933 as then in effect or any similar Federal statute then in effect, at least 25 days prior to filing a registration statement for such stock NSMC shall send a written notice of such intended registration to the Stockholder by first class mail, postage prepaid, at the address appearing on the stock records of NSMC. If within 20 days after the mailing of such notice the Stockholder shall request in writing the registration of shares received by him pursuant hereto and held by him, NSMC shall include such shares as he shall specify in the filing of such registration and will use its best efforts to cause such registration statement to become effective as soon as practicable thereafter. It is understood and agreed that in the event of any registration of shares of NSMC Common Stock pursuant to this paragraph 12(c), NSMC may delay the delivery of prospectuses to the Stockholder for a period not in excess of 60 days from the effective date of such registration statement.

(d) In the event of any registration pursuant to this paragraph 12, NSMC shall indemnify the Stockholders against all losses, claims, damages and liabilities caused by any untrue statement of a material fact contained in the registration statement or prospectus (and as amended or supplemented if NSMC shall have furnished any amendments or supplements thereto), or caused by any omission to state therein a material fact required to be stated therein or neccessary to make the statements therein not misleading, except in so far as such losses, claims, damages or liabilities are caused by any untrue statement of a material fact contained in, or any material fact omitted from, information furnished in writing to NSMC by the Stockholders expressly for use therein. It shall be a condition precedent to any right of registration under this paragraph 12 that the Stockholders shall furnish to NSMC in writing such information as shall be reasonably requested by NSMC for use in any such registration statement or prospectus and shall agree in writing to indemnify NSMC, its directors and officers, and each person, if any, who controls NSMC within the meaning of Section 15 of the Securities Act of 1933, as amended, and any underwriter for NSMC against all losses, claims, damages and liabilities caused by any untrue statement of a material fact contained in, or any material fact omitted from, information so furnished in writing by the Stockholders. NSMC will use its best efforts to qualify such shares for sale under the laws of such

states as shall be reasonably requested by the Stockholders provided, however, that NSMC shall not be required to qualify as a foreign corporation in any jurisdiction where it has not heretofore been qualified. The expenses in connection with any registration under this paragraph, including without limitation, printing costs and fees and disbursements of counsel and independent accountants shall be borne by NSMC, except that any underwriters' discount and charges and applicable registration fee under the Act, allocable to Stockholders, and counsel fees and expenses of the Stockholders, shall be borne by the Stockholders. NSMC shall not be required to maintain a current prospectus more than six months (or such longer period as may be mutually agreed upon) after the date of filing any registration statement pursuant to this paragraph 12. NSMC shall furnish Stockholders with as many copies of the prospectus as Stockholders may reasonably request.

(e) Notwithstanding the foregoing provisions of this paragraph 12 the Stockholders agree that they will not dispose of any shares of NSMC Common Stock if in the opinion of NSMC's independent public accountants, Peat, Marwick, Mitchell & Co., such disposition will result in the accounting treatment of the transaction contemplated by this Agreement being other than at least a fifty percent "pooling of interests".

13. The representations, warranties and agreements of the parties made herein shall survive the consummation of the transactions contemplated by this Agreement and shall remain in full force and effect thereafter.

14. Any notice of communication required or permitted hereunder shall be sufficiently given if sent by first class mail, postage prepaid, and if to Mailbag or the Stockholders addressed to 201 East 42nd Street, New York, New York 10017; with a copy thereof to Messrs. Gifford, Woody, Carter & Hays, One Wall Street, New York, New York 10005; and if to NSMC, addressed to it at 345 Park Avenue, New York, New York 10017, marked for the attention of the Secretary, with a copy thereof to Messrs. White & Case, 14 Wall Street, New York, New York 10005.

15. This Agreement and the rights of the Stockholders hereunder may not be assigned (except by operation of law) and shall be binding upon and shall inure to the benefit of the parties hereto and successors of NSMC and to the successors and legal representatives of the Stockholders.

16. This Agreement and the Exhibits hereto and the documents delivered pursuant hereto constitute the entire agreement and understanding among the Stockholders, Mailbag and NSMC and supersedes any prior agreement and understanding relating to the subject matter of this Agreement.

17. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

18. Whether or not the transaction herein contemplated shall be consummated, NSMC will pay the fees, expenses and disbursements of NSMC and its counsel in connection with the subject matter of this Agreement and any amendments thereto and all other costs and expenses incurred by NSMC in performance and compliance with all conditions to be performed by it under this Agreement. Mailbag will pay the first $5,000 of fees, expenses and disbursements incurred by Mailbag in connection with the subject matter of this Agreement and any amendments thereto and all other costs and expenses incurred by it in performance and compliance with all conditions to be performed by it under this Agreement and the Stockholders shall pay the balance of such fees, expenses and disbursements, if any.

19. This Agreement shall be construed and interpreted in accordance with the laws of the State of New York.

20. Anything herein to the contrary notwithstanding and notwithstanding any shareholder vote of approval of this Agreement and the merger provided herein, this Agreement may be terminated and

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abandoned by mutual consent of the Board of Directors of both NSMC and Mailbag at any time prior to the Effective Date.

IN WITNESS WHEREOF, Mailbag and NSMC have caused their corporate names to be hereunto subscribed and their corporate seals to be hereunto affixed by their officers thereunto duly authorized the day and year first above written.

NATIONAL STUDENT MARKETING CORPORATION

By s/ CORTES W. RANDELL
President

[CORPORATE SEAL]

ATTEST:

s/ JOHN GLANDON DAVIES
Secretary

MAILBAG INTERNATIONAL, INC.

By s/ GEORGE W. SCHIELE

[CORPORATE SEAL]

ATTEST:

s/ CARMINE CORBO
Secretary

Confirmed and Agreed this
8th day of August 1969.

The Stockholders

s/ GEORGE W. SCHIELE
George W. Schiele

s/ WILLIAM H. TORGIS
William H. Torgis

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EXHIBIT A

ARTICLES OF MERGER

Pursuant to Sections 68 and 71 of the District of Columbia Business Corporation Act, the undersigned hereby certify:

1. A conformed copy of the Agreement and Plan of Merger between National Student Marketing Corporation ("NSMC") and Mailbag International, Inc. ("Mailbag") dated August 8, 1969 is attached hereto as Exhibit A and incorporated herein by reference.

2. The authorized capital stock of NSMC consists of 3,000,000 shares of Common Stock, par value $.025 per share, of which shares are issued and outstanding.

3. The authorized capital stock of Mailbag consists of 200 shares of Common Stock, without par value, of which 44 shares are issued and outstanding.

4. The shareholders of NSMC, a District of Columbia corporation, approved and adopted the Agreement and Plan of Merger at a Special Meeting of Shareholders held on , 1969. The results of the vote were as follows:

For the Plan	**Against the Plan**
..... Shares	..... Shares

5. The shareholder of Mailbag, a New York corporation, approved and adopted the Agreement and Plan of Merger by unanimous written consent.

IN WITNESS WHEREOF, these articles have been signed this day of , 1969.

NATIONAL STUDENT MARKETING CORPORATION

By .....
President

[CORPORATE SEAL]

ATTEST:

.....
Secretary

MAILBAG INTERNATIONAL, INC.

By .....
President

[CORPORATE SEAL]

ATTEST:

.....
Secretary

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EXHIBIT B

CERTIFICATE OF MERGER

OF

MAILBAG INTERNATIONAL, INC.

AND

NATIONAL STUDENT MARKETING CORPORATION

INTO

NATIONAL STUDENT MARKETING CORPORATION

(Under Section 907 of the Business Corporation Law)

The undersigned hereby certify:

1. The name of the constituent corporation to be merged is Mailbag International, Inc. ("Mailbag") and the name of the surviving corporation is National Student Marketing Corporation ("NSMC").

2. The outstanding capital stock of NSMC consists of 3,000,000 shares of voting Common Stock, par value $.025 per share. The outstanding capital stock of Mailbag consists of 200 shares of voting Common Stock, without par value.

3. The Agreement and Plan of Merger was approved by the Board of Directors of Mailbag at a meeting held on , 1969 and authorized by the holder of all the outstanding shares of Mailbag by unanimous written consent adopted in lieu of meeting.

4. The Agreement and Plan of Merger was approved by the Board of Directors and the Shareholders of NSMC in compliance with the applicable provisions of the laws of the District of Columbia. The laws of the District of Columbia permit the merger herein effected.

5. The Certificate of Incorporation of Mailbag, a domestic corporation, was filed by the Department of State on . NSMC, the surviving corporation, was incorporated under the laws of the District of Columbia on May 20, 1966. It filed its application for authority to do business in the State of New York on April 3, 1968.

6. NSMC hereby agrees that NSMC may be served with process in New York in any action or special proceeding for the enforcement of any liability or obligation of any constituent corporation previously amenable to suit in New York and for the enforcement under the Business Corporation Law of the right of shareholders of any constituent corporation to receive payment for their shares against NSMC as the surviving corporation.

7. NSMC agrees that subject to the provisions of Section 623 of the Business Corporation Law, it will promptly pay to the shareholders of Mailbag the amount, if any, to which they shall be entitled under the provisions of the Business Corporation Law relating to the rights of shareholders to receive payment for their shares.

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8. NSMC hereby designates the Secretary of State as its agent upon whom process against it may be served in the manner set forth in paragraph (b) of Section 306 of the Business Corporation Law in any action or special proceeding described in paragraph 6 hereof. The Secretary of State shall mail a copy of any such process to the following address:

National Student Marketing Corporation
345 Park Avenue
New York, New York 10017

9. The Plan of Merger has not been abandoned.

Dated: , 1969.

NATIONAL STUDENT MARKETING CORPORATION

By .....
President

By .....
Secretary

MAILBAG INTERNATIONAL, INC.

By .....
President

By .....
Secretary

Verification

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EXHIBIT C

ESCROW AGREEMENT

AGREEMENT, dated as of , 1969 among NATIONAL STUDENT MARKETING CORPORATION, a District of Columbia corporation ("NSMC"); GEORGE W. SCHIELE and WILLIAM H. TORGIS (the "Stockholders"), the holders of all of the outstanding capital stock of Mailbag International, Inc., a New York corporation ("Mailbag"); and FIRST NATIONAL CITY BANK (the "Escrow Agent").

WHEREAS, Mailbag has this day merged with and into NSMC pursuant to an Agreement and Plan of Merger and whereas the agreement reflecting such transaction provides that a portion of the shares of NSMC Common Stock received by the Stockholders be delivered to and held by the Escrow Agent subject to the terms and conditions of an Escrow Agreement; and

WHEREAS, the parties hereto have agreed upon and wish to set forth herein the terms and conditions of said Escrow Agreement with respect to the shares of NSMC Common Stock to be so delivered to and held by the Escrow Agent;

NOW, THEREFORE, it is agreed as follows:

1. *Escrow Agent.* The Escrow Agent has agreed to act as such Escrow Agent in furtherance of the provisions of an Agreement and Plan of Merger, dated August 8, 1969 (the "Merger Agreement"), among NSMC, Mailbag and the Stockholders, upon the terms, conditions and provisions provided in this Escrow Agreement.

2. *Escrow of NSMC Shares.* The Stockholders hereby designate and appoint First National City Bank, New York, New York, as Escrow Agent to serve in accordance with the terms of this Escrow Agreement. The Stockholders hereby agree to deposit in escrow with the Escrow Agent on the Effective Date provided for in the Merger Agreement the shares of NSMC Common Stock, par value $.025 per share, listed opposite their respective names on the signature page hereto (the "Escrowed Shares") issued and delivered by NSMC to such Stockholders on such Effective Date; such shares are represented by stock certificates registered in the name of the Stockholders and accompanied by stock powers duly signed in blank, with signature guaranteed by a bank, trust company or member firm of the New York Stock Exchange.

3. *Purpose of the Escrow.* (a) To the extent herein provided, the Stockholders will indemnify and hold harmless NSMC against and in respect of any "Loss" (as defined in this paragraph 3) which is certified to the Escrow Agent in accordance with paragraph 4 hereof. The Escrowed Shares shall, subject to the terms and conditions of this Escrow Agreement, be applied to indemnify and hold harmless NSMC against and in respect of the entire amount of such Loss. As used in this Escrow Agreement, the term "Loss" shall mean the amount of any Loss, liability or reasonable and actual expense incurred by NSMC as a result of any misrepresentation or breach of warranty of Mailbag or the Stockholders contained in the Merger Agreement.

4. *Certification of Loss to Escrow Agent.*

(a) If NSMC is of the opinion that any Loss has occurred, and desires to have Escrowed Shares applied thereto pursuant to this Escrow Agreement, NSMC shall promptly so notify the Stockholders in writing at the address provided in paragraph 13 hereof and shall transmit a copy of such notice to the Escrow Agent. Any such notice shall contain a detailed statement specifying the circumstances and computation of such asserted Loss. Notice of any claim of Loss with respect to the Escrowed Shares must be given on or prior to December 31, 1971.

(b) The amount of any Loss asserted by NSMC by notice given pursuant to subparagraph 4(a) hereof and the number of Escrowed Shares, if any, to be returned to NSMC pursuant to paragraph 5 hereof shall be certified to the Escrow Agent in writing jointly by NSMC and the Stockholders if they agree on said amount and number, but if they cannot so agree within a period of 30

days after notice is given pursuant to subparagraph 4(a) hereof, either NSMC or the Stockholders shall be entitled within 30 days after such notice to direct submission of the matter in disagreement to arbitration in accordance with the rules and regulations of the American Arbitration Association. NSMC and the Stockholders shall promptly notify the Escrow Agent of such submission to arbitration. As promptly as possible thereafter the arbitrator(s) shall certify to the Escrow Agent, and to NSMC and the Stockholders that there is no Loss, or, if there is a Loss, the amount thereof and the number of shares to be returned to NSMC pursuant to paragraph 5 hereof. Such certification shall contain a detailed statement specifying the circumstances and computations of any Loss. The determination of the arbitrator(s) as to the amount of the Loss and the number of Escrowed Shares to be returned to NSMC, if any, shall be conclusive and binding upon the Stockholders and NSMC. Such determination may be deferred pending the time when any Loss which is uncertain or contingent becomes fixed. The expenses of each party, including legal and accounting fees, if any, with respect to any disagreement hereunder shall be borne by such party. If the matter is submitted to arbitration, the arbitrator(s) shall designate the party or parties to bear the other expenses of such determination and/or the respective amounts to be borne by each.

(c) In connection with any asserted Loss, NSMC will make available to the Stockholders, their counsel and accountants such records as they may reasonably request pertaining to such asserted Loss.

5. *Number of Shares Returnable to NSMC in the Event of Loss.*

Upon determination pursuant to the provisions of paragraph 4 hereof of the amount of any Loss, such amount shall be divided by the then market price of the shares, which shall be determined by the average of the bid prices of NSMC Common Stock on the over-the-counter market as reported by the National Quotation Bureau Incorporated for the 30 business days prior to the time of determination or if the NSMC Common Stock shall be at the time listed on a national stock exchange then the mean average of the closing prices of such stock for the 30 trading days prior to the time of determination and the resulting figure (rounded to the nearest whole number) shall be the number of Escrowed Shares to be returned to NSMC in respect of such Loss pursuant to the provisions of this Escrow Agreement (the "Returned Shares").

6. *Delivery of Escrowed Shares to Stockholders; Return of Escrowed Shares to NSMC.*

In the event that the Escrow Agent shall not have received on or prior to December 31, 1971 a copy of any notice of a Loss asserted by NSMC pursuant to the provisions of paragraph 4 hereof (which Loss, if a Loss is asserted, has not been satisfied prior to such date), then promptly after such date the Escrow Agent shall deliver the Escrowed Shares to the Stockholders. In the event that NSMC shall assert any Loss hereunder on or prior to December 31, 1971, then the Escrow Agent shall deliver to the Stockholders only the number of Escrowed Shares in excess of the number of shares claimed by NSMC. Promptly following the making of the final computation pursuant to paragraph 5 hereof and the certification thereof to the Escrow Agent pursuant to subparagraph 4(b) hereof, the Escrow Agent shall deliver to NSMC, for immediate cancellation only, the Returned Shares, and shall deliver to the Stockholders the balance of the Escrowed Shares. Such deliveries shall be effected by the surrender by the Escrow Agent to NSMC of the stock cetificates then in its possession representing Escrowed Shares, accompanied by any stock powers pertaining thereto, whereupon NSMC shall promptly issue to the Escrow Agent a new stock certificate registered in the name of the Stockholders for the number of Escrowed Shares then remaining in escrow as reduced by the number of Returned Shares, and the Escrow Agent shall retain such new stock certificate subject to the terms of this Escrow Agreement.

7. *Adjustment in Shares to Reflect Stock Dividends, Split-Up or Other Recapitalization.* In the event that, prior to any delivery of Escrowed Shares out of escrow by the Escrow Agent in accordance with the terms hereof, the outstanding shares of NSMC Common Stock shall have been, without new consideration, increased, decreased, changed into or exchanged for a different number or kind of shares or securities through reorganization, recapitalization, reclassification, stock dividend, stock split, reverse

stock split, or other like changes in NSMC's capitalization, then notice of such change will be given to the Escrow Agent and an appropriate and proportionate adjustment shall be made in the number and kind of shares of NSMC Common Stock to be thereafter delivered hereunder.

8. *Right of Stockholders to Defend Claims.* The Stockholders shall at their expense have the opportunity to be represented by counsel of their choice in connection with the defense of any action, suit, proceeding, demand or claim brought against NSMC in respect of which NSMC may be entitled to indemnification pursuant to paragraph 3 hereof. If the Stockholders elect to exercise this right and give notice to NSMC conceding NSMC's right to such indemnification, their counsel shall have control over the prosecution of the defense of said action, suit, proceeding, demand or claim. If after such opportunity the Stockholders or their counsel do not participate in such proceedings, they shall be bound by the results obtained by NSMC. NSMC shall give prompt written notice of any such claim to the Stockholders at the address contained in the Merger Agreement. In connection with any defense or consideration of defense by the Stockholders of any claim referred to hereinabove in this paragraph, NSMC will make available to the Stockholders, their counsel and accountants such records as they may reasonably request pertaining to said claim.

9. *Voting Rights, Dividend, etc.* Pending the delivery of Escrowed Shares out of escrow pursuant to the provisions of paragraph 6 hereof, the Stockholders may exercise all voting rights with respect to the Escrowed Shares and may receive the benefit of all dividends and other distributions with respect thereto; provided, however, that any shares which are issued as stock dividends or in a split-up or other recapitalization of NSMC with respect to Escrowed Shares shall be deposited by the Stockholders as additional Escrowed Shares. All dividends paid on Returned Shares shall be repaid to NSMC by the Stockholders.

10. *Fees.* NSMC agrees to pay the Escrow Agent for its services hereunder such reasonable fee as may be customarily charged for such services by banks in New York, New York.

11. *Responsibilities of Escrow Agent.* The acceptance by the Escrow Agent of its duties under this Escrow Agreement is subject to the following terms and conditions, which the parties to this Escrow Agreement hereby agree shall govern and control with respect to its rights, duties, liabilities and immunities:

(a) The Escrow Agent shall act hereunder as depositary only, and it shall not be responsible or liable in any manner whatever for the computations to be made in accordance with the formula stated in paragraph 5 hereof nor for the sufficiency, correctness, genuineness or validity of any security deposited with it.

(b) The Escrow Agent shall be protected in acting upon any written notice, request, waiver, consent, receipt or other paper or document furnished to it, not only as to its due execution and the validity and effectiveness of its provisions but also as to the truth and acceptability of any information therein contained, which it in good faith believes to be genuine and what it purports to be.

(c) The Escrow Agent shall not be liable for any error of judgment, or for any act done or step taken or omitted by it in good faith, or for any mistake of fact or law, or for anything which it may do or refrain from doing in connection herewith, except its own negligence or misconduct.

(d) The Escrow Agent may consult with, and obtain advice from, legal counsel in the event of any question as to any of the provisions hereof or its duties hereunder, and it shall incur no liability and shall be fully protected in acting in good faith in accordance with the opinion and instructions of such counsel. The cost of such services shall be added to and be a part of the Escrow Agent's fee hereunder.

(e) The Escrow Agent shall have no duties except those which are expressly set forth herein, and it shall not be bound by any notice of a claim, or demand with respect thereto, or any waiver, modification, amendment, termination or rescission of this Escrow Agreement, unless in writing

received by it, and, if its duties herein are affected, unless it shall have given its prior written consent thereto.

12. *Amendment and Termination.* This Escrow Agreement may be amended or cancelled by and upon written notice to the Escrow Agent at any time given jointly by NSMC and the Stockholders, but the duties or responsibilities of the Escrow Agent may not be increased without its consent.

13. *Notices.* Any notices or other communications required or permitted hereunder shall be sufficiently given if sent by registered or certified mail, postage prepaid, if to the Stockholders addressed to them at their respective addresses as set forth on the stock transfer records by NSMC's Transfer Agent, with a copy thereof to Messrs. Gifford, Woody, Carter & Hays, One Wall Street, New York, New York 10005; if to NSMC addressed to it at 345 Park Avenue, New York, New York 10017, marked for the attention of the Secretary, with a copy thereof to Messrs. White & Case, 14 Wall Street, New York, New York 10005, and if to the Escrow Agent addressed to it at 1503 Pennsylvania Avenue, N. W., Washington, D. C. marked for the attention of the Escrow Department; or in any case to such other address as shall be furnished in writing by such party. Such notices or other communications so given shall be deemed to have been given on the date so mailed.

14. *Parties in Interest.* This Escrow Agreement shall be binding upon and inure to the benefit of the respective heirs, legal representatives, successors and assigns of the parties hereto.

15. *Execution by Escrow Agent.* The execution of this Escrow Agreement by the Escrow Agent shall constitute a receipt of the Escrowed Shares and shall evidence its acceptance and agreement to the terms hereof.

IN WITNESS WHEREOF, the parties hereto have duly caused this Escrow Agreement to be executed as of the date first above written.

NATIONAL STUDENT MARKETING CORPORATION

By .....
President

[CORPORATE SEAL]

ATTEST:

.....
Secretary

FIRST NATIONAL CITY BANK

By .....
Trust Officer

[SEAL]

ATTEST:

.....
Assistant Secretary

Stockholder	**Number of NSMC Shares Placed in Escrow**
George W. Schiele	
William H. Torgis	

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SCHEDULE H

AGREEMENT AND PLAN OF MERGER dated August 8, 1969 by and between NATIONAL STUDENT MARKETING CORPORATION, a District of Columbia corporation ("NSMC"), and MII SERVICES, INC., a New York corporation ("MII").

WITNESSETH:

WHEREAS, the respective Boards of Directors of NSMC and MII deem it advisable for the general welfare and advantage of the respective corporations and their shareholders that MII be merged into NSMC pursuant to this Agreement and the applicable laws of the State of New York and the District of Columbia; and

WHEREAS, to effect such Merger MII will be merged into NSMC and the holder of MII Common Stock (the "Stockholder") will receive in exchange for his shares of MII Common Stock, without par value ("MII Stock"), 51,797 shares of NSMC Common Stock;

NOW, THEREFORE, in consideration of the mutual agreements and conditions herein contained, NSMC and MII hereby agree each with the other, in accordance with the applicable laws of the State of New York and the District of Columbia, that MII shall be merged into NSMC (which in its capacity as the surviving corporation is sometimes hereinafter called the "Surviving Corporation"), and the terms and conditions of the merger and the mode of carrying them into effect are and shall be as follows:

1. When this Agreement and the transactions contemplated hereby have been approved and the Articles of Merger, substantially in the form attached hereto as Exhibit A, required by Sections 68 and 71 of the Business Corporation Act of the District of Columbia have been filed in accordance with the provisions of such Law, and the Certificate of Merger, substantially in the form attached hereto as Exhibit B, required by Section 907 of the New York Business Corporation Law has been filed in accordance with the provisions of such Law, the separate existence of MII shall cease and it shall be merged into NSMC. The date on which such recording and filing have been completed and the transaction contemplated hereby becomes effective shall be known as the "Effective Date".

2. The laws which are to govern the Surviving Corporation are the laws of the District of Columbia. The Articles of Incorporation of NSMC shall, on the Effective Date, be the Articles of Incorporation of the Surviving Corporation, from and after the Effective Date, subject always to the right of the Surviving Corporation to amend its Articles of Incorporation in accordance with the laws of the District of Columbia. The By-Laws of the Surviving Corporation shall be the By-Laws of NSMC as in effect on the Effective Date, until changed or amended as provided therein.

3. (a) On the Effective Date, NSMC will issue 1294.925 shares of NSMC Common Stock for each one share of MII Common Stock outstanding on the Effective Date, which shares of NSMC Common Stock shall be exchanged for MII Common Stock on the Effective Date by the parties hereto.

(b) Immediately upon receipt of the shares as set forth in paragraph (a) above, the Stockholder will deliver to First National City Bank, New York, New York, as Escrow Agent pursuant to an Escrow Agreement, substantially in the form and substance of Exhibit C hereto (the "Escrow Agreement"), 5,180 shares of NSMC Common Stock (the "Escrowed Shares"), to be released from escrow and delivered to the Stockholder in accordance with the terms of this Agreement and the Escrow Agreement.

4. Except as provided herein, upon the merger becoming effective, all the rights, privileges, powers and franchises and all property and assets of every kind and description of MII and NSMC, including, without limitation, trade names, names, licenses and registrations, and the good will relating to any of the foregoing, shall be vested in and be held and enjoyed by the Surviving Corporation, without further act or deed, and all the estates and interests of every kind of MII and NSMC, including all debts

due to any of them on whatever account, shall be as effectually the property of the Surviving Corporation as they were of MII and NSMC, and the title to any real estate vested by deed or otherwise in MII and NSMC shall not revert or be in any way impaired by reason of the merger; and all rights of creditors and all liens upon any property of MII and NSMC shall be preserved unimpaired, and all debts, liabilities and duties of MII and NSMC shall thenceforth attach to the Surviving Corporation and may be enforced against it to the same extent as if said debts, liabilities and duties had been incurred or contracted by it.

5. NSMC, MII and the Stockholder agree to execute and deliver the Escrow Agreement on the Effective Date.

6. MII represents, warrants and agrees as follows:

(a) MII is a corporation duly organized and validly existing in good standing under the laws of the State of New York with the power to own its property and to carry on its business as now being conducted, and there is no jurisdiction in which the character of the properties owned or the nature of the business conducted by it makes qualification as a foreign corporation necessary.

(b) MII has no subsidiaries or affiliates.

(c) The authorized capital stock of MII consists of 2,000 shares of Common Stock, without par value, of which 40 of such shares are issued and outstanding. Such issued shares have been validly authorized and issued and are fully paid and non-assessable. MII has no outstanding options, warrants or other rights, calls or commitments to purchase capital stock of MII, and there are no outstanding options, warrants, rights, calls, commitments, conversion rights, plans or other agreements of any character providing for the purchase of any authorized but unissued MII shares. Prior to the Effective Date, MII will not issue any shares of capital stock, authorize any increase in the number of shares of its authorized capital stock or issue any options or rights to subscribe for or purchase shares of its capital stock.

(d) MII has furnished NSMC with a balance sheet of MII as of September 30, 1968 and an income statement for the twelve month period then ended, certified by Pustorino, Puglisi, Behan & Co., certified public accountants. MII has also furnished NSMC with a balance sheet of MII as at May 31, 1969 and an income statement for the nine month period then ended, prepared by MII and certified by the principal accounting officer of MII. Such financial statements are true and correct and have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods involved. The balance sheets fairly present the condition of MII as of the dates thereof, and reflect all known claims against and debts and liabilities (including adequate provision for all taxes), fixed or contingent, as at the date thereof, and the income statements accurately present the results of the operations of MII for the periods indicated subject in the case of the nine months statements to year-end audit adjustments. Neither such balance sheets nor such income statements contain any untrue statement of a material fact, or omit to state any material fact necessary in order to make the statements contained in this paragraph or therein not misleading.

(e) Except for such claims, debts and liabilities as are reflected in the May 31, 1969 balance sheet referred to in paragraph 6(d) above, MII has no outstanding indebtedness and is not subject to any claims or liabilities other than trade or business obligations incurred in the ordinary course of business. Without the prior written consent of NSMC, MII will not incur, prior to the Effective Date, any additional indebtedness for money borrowed or incur any liabilities other than in the ordinary course of business.

(f) Since May 31, 1969, except as may heretofore have been disclosed in writing to NSMC, MII has not issued, or declared or paid any dividend on, or declared or made any distribution on, or authorized the creation or issuance of, or effected any split-up or any recapitalization of, any of its stock of any class, or directly or indirectly redeemed, purchased or otherwise acquired any of its outstanding stock, or authorized or made any change in its Certificate of Incorporation or agreed to take any such action.

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(g) MII has filed all requisite Federal income, payroll and excise tax returns and all appropriate state and local income, sales, payroll, personal property and franchise tax returns required to be filed by it and has paid all taxes and assessments (including interest or penalties) owed by it to the extent that such taxes and assessments have become payable. To the extent that such taxes and assessments and any subsequent tax liabilities have accrued but have not become payable, the full amounts thereof have been reflected as liabilities on MII's books. In addition, MII has paid all taxes which would not require the filing of returns and which are required to be paid by it. The Federal income tax returns of MII for the years 1966 to and including 1968 are currently under review by the Internal Revenue Service and as of the date hereof, no penalty or deficiency has been assessed for such years.

(h) MII owns no real property. MII has good and marketable title to all its personal and intangible property, including the personal and intangible property reflected in the most recent balance sheet delivered pursuant to paragraph 6(d) above, with such changes in such personal and intangible property as have been made since such dates, in the ordinary course of business. None of such personal and intangible property is subject (i) to a contract of sale or (ii) to mortgages, pledges, liens, encumbrances, security interests or charges of any kind or character except as herein disclosed.

(i) MII does not hold under lease any real or personal property.

(j) Attached hereto as Exhibit D is a true and correct list of all policies of insurance of MII including the amounts thereof, in force as at the date hereof, and such policies are in full force and effect. MII will continue to maintain all of such policies or renewals thereof in full force and effect up to and including the Effective Date.

(k) Except as set forth in Exhibit E hereto, MII owns, possesses or licenses no trade secret, technical information, patent, patent right, application for patent, trademark, trade name, copyright, process or formula used in its business. Except as noted on such exhibit, no copyright or trade name infringes on others, none is owned by or licensed to any other person, firm or corporation in the United States or elsewhere, no proceedings have been instituted or are pending or threatened which challenge the sole and exclusive ownership thereof by MII and none is subject to any proceeding or action attacking or contesting its validity. Except as set forth in Exhibit E attached hereto, MII has full right, title and ownership to its corporate name and any and all other names under which it does business. MII possesses valid rights to use all trademarks, trade names, and all licenses now used and necessary to conduct its business as presently being conducted.

(l) Except as set forth in Exhibit F hereto, there are no actions, suits or proceedings pending or threatened against or affecting MII, at law or in equity, by or before any Federal, state or municipal court or other governmental department, commission, board, bureau, agency or instrumentality which would adversely affect or impair the financial condition, business, operations, prospects, and assets of MII. MII is subject to no liability by reason of a violation of any order, rule, or regulation of, or default with respect to any tax return or any other return or report payable to or required to be filed with, any Federal, state, municipal or other governmental agency, department, commission, bureau, board of instrumentality to which it is subject.

(m) Except as set forth in Exhibit G, MII has no collective bargaining agreements with employees, executive employment agreements, executive compensation plans, employees' pension or retirement plans or pension trusts, employees' profit sharing or bonus or stock purchase plans or any other similar agreements or plans. Between the date hereof and the Effective Date, MII will not, without the written consent of NSMC, make or agree to make any increase in the rate of wages, salaries, bonuses or other remuneration of any employee or employees, or become a party to any contract or arrangement with any of its officers or employees other than contracts which are terminable at will or subject to termination on not more than one month's notice, or become a party to any contract or arrangement with any officers or employees providing for bonuses or profit-sharing payments, severance pay or retirement benefits.

(n) Attached hereto as Exhibit H is a true and correct list of all outstanding contracts, agreements or understandings to which MII is a party, except (i) those referred to elsewhere in this paragraph 6, and (ii) any contract, agreement or understanding involving an aggregate expenditure by MII of less than $5,000. Neither MII nor any other party to any such contract, agreement or understanding is in default under the terms of any such contract, agreement or understanding. Between the date hereof and the Effective Date, MII will not, without the written consent of NSMC, make any changes or modifications in any such contracts, agreements or understandings, or incur any further obligations or surrender any rights thereunder, or make any further additions to its property or further purchases of equipment except such changes or modifications, each in an amount less than $5,000, as are in the ordinary course of business or are necessary or appropriate to maintain its properties and equipment. MII is not a party to any continuing contract for the future purchase of materials, supplies or equipment in excess of the requirements for its business as now being conducted.

(o) MII is not subject to any order, judgment or decree with respect to its business or condition or any of its assets or property, or to any charter, by-law, mortgage, lease, agreement, instrument, order, judgment or decree which would prevent the consummation of the transactions contemplated hereunder, or compliance by MII or the Stockholder with the terms, conditions and provisions hereof.

(p) All outstanding accounts receivable (trade or other) of MII as set forth in the May 31, 1969 balance sheet and its books and records, are collectible.

(q) Since May 31, 1969 the business and properties of MII have not been adversely affected in any way as a result of any legislative or regulatory change, revocation of any license or right to do business, fire, explosion, accident, casualty, labor trouble, flood, drought, riot, storm, condemnation, or act of God or other public force or otherwise.

(r) The copies of MII's Certificate of Incorporation and By-Laws, as amended to date, certified by its Secretary, heretofore delivered to NSMC, and of all instruments, agreements or other documents that may have been delivered to NSMC pursuant to the terms of this Agreement, are and will be complete and correct as of the date hereof and as of the Effective Date.

(s) MII has maintained its books of account in the usual, regular and ordinary manner in accordance with generally accepted accounting principles applied on a consistent basis.

(t) In the negotiations leading up to the transaction contemplated by this Agreement, MII has not retained or utilized the services of any broker or finder.

(u) During the period from the date hereof to and including the Effective Date, MII will conduct its business solely in the usual and ordinary manner and will refrain from any transactions not in the ordinary course of business unless the prior written consent of NSMC to such transactions has been obtained, except to the extent that MII is prevented from so doing by NSMC.

(v) The execution and performance of this Agreement by MII have been duly authorized by proper corporate action and such execution and performance are within its corporate powers.

7. NSMC represents, warrants and agrees as follows:

(a) NSMC is a corporation duly organized, validly existing and in good standing under the laws of the District of Columbia.

(b) As of August 8, 1969, the authorized capital stock of NSMC consisted of 3,000,000 shares of Common Stock, par value $.025 per share, of which 2,904,555 shares (including 7,934 shares held in the treasury of NSMC) were outstanding. Such outstanding shares have been validly issued and are fully paid and non-assessable.

(c) The consolidated financial statements of NSMC as at August 31, 1968 contained in its 1968 Annual Report to Stockholders, certified by Peat, Marwick, Mitchell & Co., and the unaudited

consolidated statement of earnings as reported to its shareholders for the six months ended February 28, 1969 prepared by NSMC, are true and correct and fairly present the financial position of NSMC and its subsidiaries as of such dates, and the results of their operations for the periods then ended, subject in the case of the six month statement to year-end audit adjustments.

(d) In the negotiations leading up to the transaction contemplated by this Agreement, NSMC has not, except as heretofore disclosed to the Stockholders in writing, retained or otherwise utilized the services of any broker or finder.

(e) The execution and performance of this Agreement by NSMC have been duly authorized by proper corporate action and such execution and performance are within its corporate powers.

(f) Except as set forth in a schedule heretofore delivered by NSMC to MII, the stock of NSMC is not subject to any options, calls or warrants requiring issuance at future dates of shares of such stock.

8. NSMC and MII agree as follows:

(a) NSMC and its authorized representatives shall, from and after the date hereof, have full access to the properties and the books and records of every kind of MII, and the officers of MII will furnish NSMC with such financial and operating data and other information as to the business and properties of MII and copies of all documents referred to herein or in any list delivered hereunder, as NSMC shall from time to time request. The Stockholder will cause MII and its officers and employees to comply with all of the conditions of this Agreement relating thereto. From and after the date hereof and prior to the Effective Date, the Stockholder will consult, and will use his best efforts to have the executive officers of MII consult, with NSMC's management with respect to the operation and management of MII.

(b) MII and NSMC each agrees to execute and deliver or cause to be executed and delivered such additional instruments as the other party may reasonably request for the purpose of carrying out this Agreement.

(c) The Stockholder agrees to and does hereby indemnify and hold harmless NSMC from and against any and all claims, losses, liabilities or expenses which may be asserted against NSMC or MII by any broker or other person claiming any finder's fee or commission by reason of services alleged to have been rendered for or at the instance of the Stockholder in respect to the execution of this Agreement or in respect to the consummation of the transactions herein contemplated.

(d) NSMC agrees to and hereby does indemnify and hold harmless the Stockholder from and against any and all claims, losses, liabilities or expenses which may be asserted against or suffered by the Stockholder by any broker or other person claiming any finder's fee or commission by reason of services alleged to have been rendered for or at the instance of NSMC in respect to the execution of this Agreement or in respect to the transactions herein contemplated.

(e) NSMC agrees, in the event that the transactions as herein contemplated are not consummated as herein provided, that NSMC will use its best efforts to keep confidential any information (unless readily ascertainable from public or published information or trade sources) obtained from MII or the Stockholder concerning the properties, operations and business of MII and will return to MII any statements, documents or other written information obtained from MII or the Stockholder in connection therewith.

(f) The Stockholder agrees to cooperate and use his best efforts to have the present officers, directors and employees of MII cooperate with NSMC on and after the Effective Date in the collection of accounts and notes receivable owing to MII on the Effective Date, and in furnishing information, evidence, testimony and other assistance in connection with any actions, proceedings, arrangements or disputes of any nature with respect to matters pertaining to all periods prior to the Effective Date.

(g) The Stockholder agrees to use his best efforts to persuade all officers, directors and employees of MII to remain in the employment of MII and of the Surviving Corporation or a subsidiary thereof both during the period from the date hereof to the Effective Date and thereafter; the Stockholder will also use his best efforts to retain, preserve and maintain for the Surviving Corporation and its subsidiaries the business relations of MII with its suppliers, customers and others.

9. The obligations of NSMC to consummate the transactions herein contemplated shall be subject to the fulfillment on or prior to the Effective Date of the following conditions:

(a) NSMC shall have received from Messrs. Gifford, Woody, Carter and Hays, counsel for MII, at the expense of MII, a favorable opinion, dated the Effective Date, in form and substance satisfactory to NSMC and its counsel, Messrs. White & Case, to the effect that (i) MII is duly organized and existing in good standing under the laws of New York; (ii) MII has the corporate power to carry on its business as then being conducted and there is no jurisdiction where, in the opinion of such counsel, the nature of the business transacted by it makes qualification as a foreign corporation necessary; (iii) the authorized and outstanding capital stock of MII is as represented in this Agreement, and such shares have been duly and validly authorized and issued and are fully paid and non-assessable; (iv) no provision of the Certificate of Incorporation, as amended, or the By-Laws of MII or of any contract to which MII is a party prevents the consummation of the transaction in the manner contemplated hereunder; (v) there are no outstanding options or agreements on the part of MII to issue or sell any capital stock of MII; (vi) this Agreement and the Escrow Agreement, herein referred to, have been duly executed and delivered by MII and the Stockholder and each is the valid and binding obligation of MII and of the Stockholder in accordance with its terms and any corporate action by MII required in order to authorize the transactions herein contemplated has been taken; (vii) except as set forth in Exhibit G to this Agreement, to the knowledge of such counsel, MII is not engaged in or threatened with any legal action or other proceeding, nor has incurred or been charged with any presently pending violation of any Federal, state or local law or administrative regulation, which would materially adversely affect or impair the financial condition, business, operations, prospects, properties or assets of MII; (viii) all other actions and preceedings required by law or by this Agreement to be taken by MII at or prior to the Effective Date in connection with this Agreement and the transactions provided for herein have been duly and validly taken; and (ix) as to such other matters incident to the transactions contemplated hereby as NSMC and its counsel may reasonably request at or prior to the Effective Date. In rendering its opinion, such counsel may rely to the extent that such counsel feels justified upon certificates, affidavits or other documents signed by officers of MII with respect to any facts necessary to enable such counsel to give its opinion.

(b) No action or proceeding before a court or any other governmental agency or body shall have been instituted or threatened to restrain or prohibit the merger herein contemplated and no governmental agency or body shall have taken any other action or made any request of NSMC as a result of which the management of NSMC deems it inadvisable to proceed with the transaction.

(c) The representations and warranties of MII shall be true on and as of the Effective Date with the same effect as though all such representations and warranties had been made on and as of such date; each and all of the agreements of MII to be performed on or before the Effective Date pursuant to the terms hereof shall have been duly performed; and MII shall have delivered to NSMC a certificate dated the Effective Date and signed by its President to both such effects.

(d) No material adverse change in the financial condition or business of MII shall have occurred and MII shall not have suffered any material loss or damage to any of its properties or assets, whether or not covered by insurance, since May 31, 1969, which change, loss or damage materially affects or impairs the ability of MII to conduct its business.

(c) The Stockholder shall have executed the Escrow Agreement substantially in the form attached hereto as Exhibit C.

(f) NSMC shall have received a balance sheet of MII as at August 31, 1969 and a Statement of Income for the eight months then ending prepared by Pustorino, Puglisi, Behan & Co., independent accountants, on a basis consistent with that applied to prior periods. Such financial statements shall reflect net after tax earnings of not less than $85,000.

(g) The Stockholders of NSMC shall have (i) approved an amendment to its Certificate of Incorporation increasing the number of shares of authorized Common Stock, to 7,500,000 shares, par value $.01 per share, and (ii) approved the merger transaction described herein. In addition, the number of shares of NSMC Common Stock held by NSMC Stockholders exercising their rights as dissenting stockholders under Section 73 of the Business Corporation Act of the District of Columbia shall not have exceeded two percent of the outstanding shares of NSMC Common Stock.

(h) The Effective Date shall be on or before February 1, 1970.

10. The obligation of MII to consummate the transactions herein contemplated shall be subject to the fulfillment on or prior to the Effective Date of the following conditions:

(a) MII shall have received from Messrs. White & Case, counsel for NSMC, at NSMC's expense a favorable opinion, dated the Effective Date, in form and substance satisfactory to MII and to MII's counsel, Messrs. Gifford, Woody, Carter and Hays, to the effect that (i) NSMC is a corporation duly organized and validly existing in good standing under the laws of the District of Columbia, (ii) NSMC has the corporate power to carry on its business as then being conducted; (iii) the shares of NSMC Common Stock delivered to the Stockholder pursuant to this Agreement have been duly and validly authorized and issued and are fully paid and non-assessable; (iv) this Agreement has been duly executed and delivered by authorized officers of NSMC and is a valid obligation of NSMC legally binding upon it in accordance with its terms; (v) all other actions and proceedings required by law or by this Agreement to be taken by NSMC at or prior to the Effective Date in connection with this Agreement and the transactions provided for herein have been duly and validly taken; and (vi) as to such other matters incident to the transactions contemplated hereby as MII and its counsel may reasonably request at or prior to the Effective Date.

(b) No action or proceeding before a court or any other governmental agency or body shall have been instituted or threatened to restrain or prohibit the merger herein contemplated and no governmental agency or body shall have taken any other action or made any request of MII or the Stockholder as a result of which they deem it inadvisable to proceed with the transaction.

(c) The representations and warranties of NSMC herein contained shall be true on and as of the Effective Date in all material respects with the same effect as though all such representations and warranties had been made on and as of such a date; each and all of the agreements of NSMC to be performed on or before the Effective Date pursuant to the terms hereof shall have been duly performed; and NSMC shall have delivered to MII a certificate dated the Effective Date and signed by an officer of NSMC to both such effects.

(d) NSMC shall have received an order from the Securities and Exchange Commission declaring effective under the Securities Act of 1933, as amended, a registration statement relating to the proposed sale by Stockholder of shares of NSMC Common Stock to be received by Stockholder pursuant to this Agreement.

(e) The Effective Date shall be on or before February 1, 1970.

11. The Stockholder agrees to indemnify and hold harmless NSMC from and against all claims, liabilities, losses, costs, damages or expenses (including without limitation reasonable counsel fees incurred in litigation or otherwise) arising out of or sustained by NSMC due to any breach of any representation, warranty or agreement of MII or the Stockholder contained herein or in any certificate, schedule,

exhibit or writing relating to or delivered pursuant hereto provided, however, that with respect to the representations of MII in paragraphs 6(d), 6(s) and 6(v), the Stockholder shall represent only to his best knowledge and belief. Notwithstanding anything in the foregoing to the contrary (a) the Stockholder shall have no liability hereunder beyond a period of two years from the Effective Date and (b) there shall be no liability on the part of the Stockholder unless such claims, liabilities, losses, costs, damages or expenses of NSMC exceed in the aggregate $1,250 in which event NSMC shall have recourse against the Stockholder for the entire amount thereof. NSMC shall promptly notify the Stockholder of any claim that it may have under this paragraph 11.

12. The Stockholder represents and agrees that he has not directly or indirectly offered or disposed of or attempted to offer or dispose of any of the shares of NSMC Common Stock and that he will not so offer or dispose of or attempt to offer or dispose of any of such shares in violation of the Securities Act of 1933. The Stockholder understands that NSMC is relying upon the truth and accuracy of the foregoing representation for issuing the Common Stock to the Stockholder without first registering such NSMC Common Stock under the Securities Act of 1933. The Stockholder will and does hereby indemnify and hold harmless NSMC against all liabilities, costs and expenses, including reasonable attorneys' fees, incurred by NSMC as a result of any sale or distribution by the Stockholder of such NSMC Common Stock in violation of such Act. All certificates representing NSMC Common Stock issued pursuant to this Agreement will contain a legend in the following form:

"These securities have not been registered under the Federal Securities Act of 1933, as amended. They may not be sold or offered for sale in the absence of an effective registration statement as to the securities under that Act, or an opinion of counsel satisfactory to NSMC that such registration is not required."

(b) The Stockholder agrees that, prior to any transfer or disposition of any shares of NSMC Common Stock, he will give written notice to NSMC expressing his intention to effect such transfer or disposition and describing briefly the manner of the proposed transfer or disposition of such shares of NSMC Common Stock. Promptly upon receiving such notice, NSMC shall present copies thereof to its counsel and the provisions of the following subdivisions shall apply:

(i) If in the opinion of such counsel the proposed transfer or disposition does not require registration of such shares of NSMC Common Stock under the Securities Act of 1933, as then in force or any similar Federal statute then in force (of which opinion NSMC will notify such Stockholder as promptly as practicable) or, if such Stockholder shall have received a no-action letter from the Securities and Exchange Commission (a copy of which he shall have furnished to NSMC) such Stockholder shall upon receipt of such opinion from NSMC or upon the furnishing of such copy to NSMC, as the case may be, be entitled to transfer or dispose of such shares in accordance with the terms of the notice delivered by him to NSMC.

(ii) If in the opinion of such counsel the proposed transfer or disposition requires such registration of such shares of NSMC Common Stock, such Stockholder shall not proceed with such transfer or disposition unless and until NSMC shall have registered the same: provided, however, that NSMC shall be under no obligation to register any such shares except as hereinafter provided.

(c) In the case of any proposed registration in the thirty-six months next succeeding the Effective Date of NSMC Common Stock on Form S-1 under the Securities Act of 1933 as then in effect or any similar Federal statute then in effect, at least 25 days prior to filing a registration statement for such stock NSMC shall send a written notice of such intended registration to the Stockholder by first class mail, postage prepaid, at the address appearing on the stock records of NSMC. If within 20 days after the mailing of such notice the Stockholder shall request in writing the registration of shares received by him pursuant hereto and held by him, NSMC shall include such shares as he shall specify in the filing of such registration and will use its best efforts to cause such registration statement to become effective as soon as practicable thereafter. It is understood and agreed that in the event of any registration of shares of NSMC Common Stock pursuant

to this paragraph 12(c), NSMC may delay the delivery of prospectuses to the Stockholder for a period not in excess of 60 days from the effective date of such registration statement.

(d) In the event of any registration pursuant to this paragraph 12, NSMC shall indemnify the Stockholder against all losses, claims, damages and liabilities caused by any untrue statement of a material fact contained in the registration statement or prospectus (and as amended or supplemented if NSMC shall have furnished any amendments or supplements thereto), or caused by any omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except in so far as such losses, claims, damages or liabilities are caused by any untrue statement of a material fact contained in, or any material fact omitted from, information furnished in writing to NSMC by the Stockholder expressly for use therein. It shall be a condition precedent to any right of registration under this paragraph 12 that the Stockholder shall furnish to NSMC in writing such information as shall be reasonably requested by NSMC for use in any such registration statement or prospectus and shall agree in writing to indemnify NSMC, its directors and officers, and each person, if any, who controls NSMC within the meaning of Section 15 of the Securities Act of 1933, as amended, and any underwriter for NSMC against all losses, claims, damages and liabilities caused by any untrue statement of a material fact contained in, or any material fact omitted from, information so furnished in writing by the Stockholder. NSMC will use its best efforts to qualify such shares for sale under the laws of such states as shall be reasonably requested by the Stockholder provided, however, that NSMC shall not be required to qualify as a foreign corporation in any jurisdiction where it has not heretofore been qualified. The expenses in connection with any registration under this paragraph, including without limitation, printing costs and fees and disbursements of counsel and independent accountants shall be borne by NSMC, except that any underwriters' discount and charges and applicable registration fee under the Act, allocable to Stockholder, and counsel fees and expenses of the Stockholder, shall be borne by the Stockholder. NSMC shall not be required to maintain a current prospectus more than six months (or such longer period as may be mutually agreed upon) after the date of filing any registration statement pursuant to this paragraph 12. NSMC shall furnish Stockholder with as many copies of the prospectus as Stockholder may reasonably request.

(e) Notwithstanding the foregoing provisions of this paragraph 12 the Stockholder agrees that he will not dispose of any shares of NSMC Common Stock if in the opinion of NSMC's independent public accountants, Peat, Marwick, Mitchell & Co., such disposition will result in the accounting treatment of the transaction contemplated by this Agreement being other than at least fifty percent a "pooling of interests".

13. The representations, warranties and agreements of the parties made herein shall survive the consummation of the transactions contemplated by this Agreement and shall remain in full force and effect thereafter.

14. Any notice of communication required or permitted hereunder shall be sufficiently given if sent by first class mail, postage prepaid, and if to MII or the Stockholder addressed to 201 East 42nd Street, New York, New York 10017 with a copy thereof to Messrs. Gifford, Woody, Carter & Hays, One Wall Street, New York, New York 10005; and if to NSMC, addressed to it at 345 Park Avenue, New York, New York 10017, marked for the attention of the Secretary, with a copy thereof to Messrs. White & Case, 14 Wall Street, New York, New York 10005.

15. This Agreement and the rights of the Stockholder hereunder may not be assigned (except by operation of law) and shall be binding upon and shall inure to the benefit of the parties hereto and successors of NSMC and to the successors and legal representatives of the Stockholders.

16. This Agreement and the Exhibits hereto and the documents delivered pursuant hereto constitute the entire agreement and understanding among the Stockholder, MII and NSMC and supersedes any prior agreement and understanding relating to the subject matter of this Agreement.

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17. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

18. Whether or not the transaction herein contemplated shall be consummated, NSMC will pay the fees, expenses and disbursements of NSMC and its counsel in connection with the subject matter of this Agreement and any amendments thereto and all other costs and expenses incurred by NSMC in performance and compliance with all conditions to be performed by it under this Agreement. The Stockholder will pay the fees, expenses and disbursements incurred by the Stockholder in connection with the subject matter of this Agreement and any amendments thereto and all other costs and expenses incurred by them in performance and compliance with all conditions to be performed by them under this Agreement.

19. This Agreement shall be construed and interpreted in accordance with the laws of the State of New York.

20. Anything herein to the contrary notwithstanding and notwithstanding any shareholder vote of approval of this Agreement and the merger provided herein, this Agreement may be terminated and abandoned by mutual consent of the Board of Directors of both NSMC and MII at any time prior to the Effective Date.

IN WITNESS WHEREOF, MII and NSMC have caused their corporate names to be hereunto subscribed and their corporate seals to be hereunto affixed by their officers thereunto duly authorized the day and year first above written.

NATIONAL STUDENT MARKETING CORPORATION

[CORPORATE SEAL]

By s/ CORTES W. RANDELL
President

ATTEST:

s/ JOHN GLANDON DAVIES
Secretary

MII SERVICES, INC.

By GEORGE W. SCHIELE

ATTEST:

CARMINE CORBO
Secretary

Confirmed and Agreed this
8th day of August, 1969.

The Stockholder

GEORGE W. SCHIELE
George W. Schiele

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EXHIBIT A

ARTICLES OF MERGER

Pursuant to Sections 68 and 71 of the District of Columbia Business Corporation Act, the unde - signed hereby certify:

1. A conformed copy of the Agreement and Plan of Merger between National Student Marketing Corporation ("NSMC") and MII Services, Inc. ("MII") dated August 8, 1969 is attached hereto as Exhibit A and incorporated herein by reference.

2. The authorized capital stock of NSMC consists of 3,000,000 shares of Common Stock, par value $.025 per share, of which shares are issued and outstanding.

3. The authorized capital stock of MII consists of 200 shares of Common Stock, without par value, of which 40 shares are issued and outstanding.

4. The shareholders of NSMC, a District of Columbia corporation, approved and adopted the Agreement and Plan of Merger at a Special Meeting of Shareholders held on , 1969. The results of the vote were as follows:

For the Plan	Against the Plan
Shares	Shares

5. The shareholder of MII, a New York corporation, approved and adopted the Agreement and Plan of Merger by unanimous written consent.

IN WITNESS WHEREOF, these articles have been signed this day of , 1969.

NATIONAL STUDENT MARKETING CORPORATION

[CORPORATE SEAL]

By .....
President

ATTEST:

.....
Secretary

MII SERVICES, INC.

[CORPORATE SEAL]

By .....
President

ATTEST:

.....
Secretary

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EXHIBIT B

CERTIFICATE OF MERGER

OF

MII SERVICES, INC.

AND

NATIONAL STUDENT MARKETING CORPORATION

INTO

NATIONAL STUDENT MARKETING CORPORATION

(Under Section 907 of the Business Corporation Law)

The undersigned hereby certify:

1. The name of the constituent corporation to be merged is MII Services, Inc. ("MII") and the name of the surviving corporation is National Student Marketing Corporation ("NSMC").

2. The outstanding capital stock of NSMC consists of 3,000,000 shares of voting Common Stock, par value $.025 per share. The outstanding capital stock of MII consists of 200 shares of voting Common Stock, without par value.

3. The Agreement and Plan of Merger was approved by the Board of Directors of MII at a meeting held on , 1969 and authorized by the holder of all of the outstanding shares of MII by unanimous written consent adopted in lieu of meeting.

4. The Agreement and Plan of Merger was approved by the Board of Directors and the Shareholders of NSMC in compliance with the applicable provisions of the laws of the District of Columbia. The laws of the District of Columbia permit the merger herein effected.

5. The Certificate of Incorporation of MII, a domestic corporation, was filed by the Department of State on . NSMC, the surviving corporation, was incorporated under the laws of the District of Columbia on May 20, 1966. It filed its application for authority to do business in the State of New York on April 3, 1968.

6. NSMC hereby agrees that NSMC may be served with process in New York in any action or special proceeding for the enforcement of any liability or obligation of any constituent corporation previously amenable to suit in New York and for the enforcement under the Business Corporation Law of the right of shareholders of any constituent corporation to receive payment for their shares against NSMC as the surviving corporation.

7. NSMC agrees that subject to the provisions of Section 623 of the Business Corporation Law, it will promptly pay to the shareholders of MII the amount, if any, to which they shall be entitled under the provisions of the Business Corporation Law relating to the rights of shareholders to receive payment for their shares.

8. NSMC hereby designates the Secretary of State as its agent upon whom process against it may be served in the manner set forth in paragraph (b) of Section 306 of the Business Corporation Law

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Government's Exhibit 25

EXHIBIT C

ESCROW AGREEMENT

AGREEMENT, dated as of , 1969 among NATIONAL STUDENT MARKETING CORPORATION, a District of Columbia corporation ("NSMC"); GEORGE W. SCHIELE (the "Stockholder"), the holder of all of the outstanding capital stock of MII Services, Inc., a New York corporation ("MII"); and First National City Bank, New York, New York (the "Escrow Agent").

WHEREAS, MII has this day merged with and into NSMC pursuant to an Agreement and Plan of Merger and whereas the agreement reflecting such transaction provides that a portion of the shares of NSMC Common Stock received by the Stockholder be delivered to and held by the Escrow Agent subject to the terms and conditions of an Escrow Agreement; and

WHEREAS, the parties hereto have agreed upon and wish to set forth herein the terms and conditions of said Escrow Agreement with respect to the shares of NSMC Common Stock to be so delivered to and held by the Escrow Agent:

NOW, THEREFORE, it is agreed as follows:

1. *Escrow Agent.* The Escrow Agent has agreed to act as such Escrow Agent in furtherance of the provisions of an Agreement and Plan of Merger, dated August 8, 1969 (the "Merger Agreement"), among NSMC, MII and the Stockholder, upon the terms, conditions and provisions provided in this Escrow Agreement.

2. *Escrow of NSMC Shares.* The Stockholder hereby designates and appoints First National City Bank, New York, New York, as Escrow Agent to serve in accordance with the terms of this Escrow Agreement. The Stockholder hereby agrees to deposit in escrow with the Escrow Agent on the Effective Date provided for in the Merger Agreement the shares of NSMC Common Stock, par value $.025 per share, listed opposite his name on the signature page hereto (the "Escrowed Shares") issued and delivered by NSMC to such Stockholder on such Effective Date; such shares are represented by stock certificates registered in the name of the Stockholder and accompanied by stock powers duly signed in blank, with signature guaranteed by a bank, trust company or member firm of the New York Stock Exchange.

3. *Purpose of the Escrow.* (a) To the extent herein provided, the Stockholder will indemnify and hold harmless NSMC against and in respect of any "Loss" (as defined in this paragraph 3) which is certified to the Escrow Agent in accordance with paragraph 4 hereof. The Escrowed Shares shall, subject to the terms and conditions of this Escrow Agreement, be applied to indemnify and hold harmless NSMC against and in respect of the entire amount of such Loss. As used in this Escrow Agreement, the term "Loss" shall mean the amount of any loss, liability or reasonable and actual expense incurred by NSMC as a result of any misrepresentation or breach of warranty of MII or the Stockholder contained in the Merger Agreement.

4. *Certification of Loss to Escrow Agent.*

(a) If NSMC is of the opinion that any Loss has occurred, and desires to have Escrowed Shares applied thereto pursuant to this Escrow Agreement, NSMC shall promptly so notify the Stockholder in writing at the address provided in paragraph 13 hereof and shall transmit a copy of such notice to the Escrow Agent. Any such notice shall contain a detailed statement specifying the circumstances and computation of such asserted Loss. Notice of any Claim of Loss with respect to the Escrowed Shares must be given on or prior to December 31, 1971.

(b) The amount of any Loss asserted by NSMC by notice given pursuant to subparagraph 4(a) hereof and the number of Escrowed Shares, if any, to be returned to NSMC pursuant to

in any action or special proceeding described in paragraph 6 hereof. The Secretary of State shall mail a copy of any such process to the following address:

National Student Marketing Corporation
345 Park Avenue
New York, New York 10017

9. The Plan of Merger has not been abandoned.

Dated: , 1969.

NATIONAL STUDENT MARKETING CORPORATION

By.....
President

By.....
Secretary

MII SERVICES, INC.

By.....
President

By.....
Secretary

[VERIFICATION]

paragraph 5 hereof shall be certified to the Escrow Agent in writing jointly by NSMC and the Stockholder if they agree on said amount and number, but if they cannot so agree within a period of 30 days after notice is given pursuant to subparagraph 4(a) hereof, either NSMC or the Stockholder shall be entitled within 30 days after such notice to direct submission of the matter in disagreement to arbitration in accordance with the rules and regulations of the American Arbitration Association. NSMC and the Stockholder shall promptly notify the Escrow Agent of such submission to arbitration. As promptly as possible thereafter the arbitrator(s) shall certify to the Escrow Agent, and to NSMC and the Stockholder that there is no Loss, or, if there is a Loss, the amount thereof and the number of shares to be returned to NSMC pursuant to paragraph 5 hereof. Such certification shall contain a detailed statement specifying the circumstances and computations of any Loss. The determination of the arbitrator(s) as to the amount of the Loss and the number of Escrowed Shares to be returned to NSMC, if any, shall be conclusive and binding upon the Stockholder and NSMC. Such determination may be deferred pending the time when any Loss which is uncertain or contingent becomes fixed. The expenses of each party, including legal and accounting fees, if any, with respect to any disagreement hereunder shall be borne by such party. If the matter is submitted to arbitration, the arbitrator(s) shall designate the party or parties to bear the other expenses of such determination and/or the respective amounts to be borne by each.

(c) In connection with any asserted Loss, NSMC will make available to the Stockholder, his counsel and accountants such records as he may reasonably request pertaining to such asserted Loss.

5. *Number of Shares Returnable to NSMC in the Event of Loss.*

Upon determination pursuant to the provisions of paragraph 4 hereof of the amount of any Loss, such amount shall be divided by the then market price of the shares, which shall be determined by the average of the bid prices of NSMC Common Stock on the over-the-counter market as reported by the National Quotation Bureau Incorporated for the 30 business days prior to the time of determination or if the NSMC Common Stock shall be at the time listed on a national stock exchange then the mean average of the closing prices of such stock for the 30 trading days prior to the time of determination and the resulting figure (rounded to the nearest whole number) shall be the number of Escrowed Shares to be returned to NSMC in respect of such Loss pursuant to the provisions of this Escrow Agreement (the "Returned Shares").

6. *Delivery of Escrowed Shares to Stockholder; Return of Escrowed Shares to NSMC.*

In the event that the Escrow Agent shall not have received on or prior to December 31, 1971 a copy of any notice of a Loss asserted by NSMC pursuant to the provisions of paragraph 4 hereof (which Loss, if a Loss is asserted, has not been satisfied prior to such date), then promptly after such date the Escrow Agent shall deliver the Escrowed Shares to the Stockholder. In the event that NSMC shall assert any Loss hereunder on or prior to December 31, 1971, then the Escrow Agent shall deliver to the Stockholder only the number of Escrowed Shares in excess of the number of shares claimed by NSMC. Promptly following the making of the final computation pursuant to paragraph 5 hereof and the certification thereof to the Escrow Agent pursuant to subparagraph 4(b) hereof, the Escrow Agent shall deliver to NSMC, for immediate cancellation only, the Returned Shares, and shall deliver to the Stockholder the balance of the Escrowed Shares. Such deliveries shall be effected by the surrender by the Escrow Agent to NSMC of the stock certificates then in its possession representing Escrowed Shares, accompanied by any stock powers pertaining thereto, whereupon NSMC shall promptly issue to the Escrow Agent a new stock certificate registered in the name of the Stockholder for the number of Escrowed Shares then remaining in escrow as reduced by the number of Returned Shares, and the Escrow Agent shall retain such new stock certificate subject to the terms of this Escrow Agreement.

7. *Adjustment in Shares to Reflect Stock Dividends, Split-Up or Other Recapitalization.* In the event that, prior to any delivery of Escrowed Shares out of escrow by the Escrow Agent in accordance

with the terms hereof, the outstanding shares of NSMC Common Stock shall have been, without new consideration, increased, decreased, changed into or exchanged for a different number or kind of shares or securities through reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split, or other like changes in NSMC's capitalization, then notice of such change will be given to the Escrow Agent and an appropriate and proportionate adjustment shall be made in the number and kind of shares of NSMC Common Stock to be thereafter delivered hereunder.

8. *Right of Stockholder to Defend Claims.* The Stockholder shall at his expense have the opportunity to be represented by counsel of his choice in connection with the defense of any action, suit, proceeding, demand or claim brought against NSMC in respect of which NSMC may be entitled to indemnification pursuant to paragraph 3 hereof. If the Stockholder elects to exercise this right and give notice to NSMC conceding NSMC's right to such indemnification, his counsel shall have control over the prosecution of the defense of said action, suit, proceeding, demand or claim. If after such opportunity the Stockholder or his counsel does not participate in such proceedings, he shall be bound by the results obtained by NSMC. NSMC shall give prompt written notice of any such claim to the Stockholder at the address contained in the Merger Agreement. In connection with any defense or consideration of defense by the Stockholder of any claim referred to hereinabove in this paragraph, NSMC will make available to the Stockholder, his counsel and accountants such records as he may reasonably request pertaining to said claim.

9. *Voting Rights, Dividend, etc.* Pending the delivery of Escrowed Shares out of escrow pursuant to the provisions of paragraph 6 hereof, the Stockholder may exercise all voting rights with respect to the Escrowed Shares and may receive the benefit of all dividends and other distributions with respect thereto, provided, however, that any shares which are issued as stock dividends or in a split-up or other recapitalization of NSMC with respect to Escrowed Shares shall be deposited by the Stockholder as additional Escrowed Shares. All dividends paid on Returned Shares shall be repaid to NSMC by the Stockholder.

10. *Fees.* NSMC agrees to pay the Escrow Agent for its services hereunder such reasonable fee as may be customarily charged for such services by banks in New York, New York.

11. *Responsibilities of Escrow Agent.* The acceptance by the Escrow Agent of its duties under this Escrow Agreement is subject to the following terms and conditions, which the parties to this Escrow Agreement hereby agree shall govern and control with respect to its rights, duties, liabilities and immunities:

(a) The Escrow Agent shall act hereunder as depositary only, and it shall not be responsible or liable in any manner whatever for the computations to be made in accordance with the formula stated in paragraph 5 hereof nor for the sufficiency, correctness, genuineness or validity of any security deposited with it.

(b) The Escrow Agent shall be protected in acting upon any written notice, request, waiver, consent, receipt or other paper or document furnished to it, not only as to its due execution and the validity and effectiveness of its provisions but also as to the truth and acceptability of any information therein contained, which it in good faith believes to be genuine and what it purports to be.

(c) The Escrow Agent shall not be liable for any error of judgment, or for any act done or step taken or omitted by it in good faith, or for any mistake of fact or law, or for anything which it may do or refrain from doing in connection herewith, except its own negligence or misconduct.

(d) The Escrow Agent may consult with, and obtain advice from, legal counsel in the event of any question as to any of the provisions hereof or its duties hereunder, and it shall incur no liability and shall be fully protected in acting in good faith in accordance with the opinion and instructions of such counsel. The cost of such services shall be added to and be a part of the Escrow Agent's fee hereunder.

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Government's Exhibit 25

(c) The Escrow Agent shall have no duties except those which are expressly set forth herein, and it shall not be bound by any notice of a claim, or demand with respect thereto, or any waiver, modification, amendment, termination or rescission of this Escrow Agreement, unless in writing received by it, and, if its duties herein are affected, unless it shall have given its prior written consent thereto.

12. *Amendment and Termination.* This Escrow Agreement may be amended or cancelled by and upon written notice to the Escrow Agent at any time given jointly by NSMC and the Stockholder, but the duties or responsibilities of the Escrow Agent may not be increased without its consent.

13. *Notices.* Any notices or other communications required or permitted hereunder shall be sufficiently given if sent by registered or certified mail, postage prepaid, if to the Stockholder addressed to him at his address as set forth on the stock transfer records by NSMC's Transfer Agent, with a copy thereof to Messrs. Gifford, Woody, Carter & Hays, One Wall Street, New York, New York 10005; and if to NSMC addressed to it at 345 Park Avenue, New York, New York 10017, marked for the attention of the Secretary, with a copy thereof to Messrs. White & Case, 14 Wall Street, New York, New York 10005, and if to the Escrow Agent addressed to it at 399 Park Avenue, New York, New York, marked for the attention of the Escrow Department; or in any case to such other address as shall be furnished in writing by such party. Such notices or other communications so given shall be deemed to have been given on the date so mailed.

14. *Parties in Interest.* This Escrow Agreement shall be binding upon and inure to the benefit of the respective heirs, legal representatives, successors and assigns of the parties hereto.

15. *Execution by Escrow Agent.* The execution of this Escrow Agreement by the Escrow Agent shall constitute a receipt of the Escrowed Shares and shall evidence its acceptance and agreement to the terms hereof.

IN WITNESS WHEREOF, the parties hereto have duly caused this Escrow Agreement to be executed as of the date first above written.

NATIONAL STUDENT MARKETING CORPORATION

[CORPORATE SEAL]

By .....
President

ATTEST:

.....
Secretary

FIRST NATIONAL CITY BANK

[SEAL]

By .....
Trust Officer

ATTEST:

.....
Assistant Secretary

4 (264)

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Government's Exhibit 25

Stockholder	Number of NSMC Shares Placed in Escrow
GEORGE W. SCHIELE	

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Government's Exhibit 25

SCHEDULE I

Rights of Dissenting Shareholders Under the District of Columbia Business Corporation Act

§73. RIGHTS OF DISSENTING SHAREHOLDERS.—(a) If a shareholder of a corporation which is a party to a merger or consolidation shall file with such corporation, prior to or at the meeting of shareholders at which the plan of merger or consolidation is submitted to a vote, a written objection to such plan of merger or consolidation, and shall not vote in favor thereof, and such shareholder, within twenty days after the merger or consolidation is effected, shall make written demand on the surviving or new corporation for payment of the fair value of his shares as of the day prior to the date on which the vote was taken approving the merger or consolidation, the surviving or new corporation shall pay to such shareholder, upon surrender of his certificate or certificates representing said shares, such fair value thereof. Such demand shall state the number and class of the shares owned by such dissenting shareholder. Any shareholder failing to make demand within the twenty-day period shall be bound by the terms of the merger or consolidation.

(b) If within thirty days after the date on which such merger or consolidation was effected the value of such shares is agreed upon between the dissenting shareholder and the surviving or new corporation payment therefor shall be made within ninety days after the date on which such merger or consolidation was effected, upon the surrender of his certificate or certificates representing said shares. Upon payment of the agreed value the dissenting shareholder shall cease to have any interest in such shares or in the corporation.

(c) If within such period of thirty days the shareholder and the surviving or new corporation do not so agree, then the dissenting shareholder may, within sixty days after the expiration of the thirty-day period, file a petition in any court of competent jurisdiction within the District of Columbia, asking for a finding and determination of the fair value of such shares, and shall be entitled to judgment against the surviving or new corporation for the amount of such fair value as of the day prior to the date on which such vote was taken approving such merger or consolidation, together with interest thereon at the rate of 5 per centum per annum to the date of such judgment. The judgment shall be payable only upon and simultaneously with the surrender to the surviving or new corporation of the certificate or certificates representing said shares. Upon payment of the judgment, the dissenting shareholder shall cease to have any interest in such shares or in the surviving or new corporation. Such shares may be held and disposed of by the surviving or new corporation as it may see fit. Unless the dissenting shareholder shall file such petition within the time herein limited, such shareholder and all persons claiming under him shall be bound by the terms of the merger or consolidation.

(d) The right of a dissenting shareholder to be paid the fair value of his shares as herein provided shall cease if and when the corporation shall abandon the merger or consolidation.

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Government's Exhibit 25

PROXY

NATIONAL STUDENT MARKETING CORPORATION

This Proxy Solicited by Management for a Special Meeting of Stockholders, October 8, 1969

The undersigned hereby appoints CORTES W. RANDELL and JOHN G. DAVIES, and each of them, his attorneys and proxies, each with full power of substitution and revocation, for and in his name, place and stead, to vote all of the Common Stock of National Student Marketing Corporation which the undersigned is entitled to vote at the Special Meeting of Stockholders of the Corporation to be held at the Jefferson Room of the Washington Hilton, Hotel, 1919 Connecticut Avenue, N. W., Washington, D. C. on October 8, 1969, at 10:00 a.m., Washington, D. C. time, and at any adjournment or adjournments thereof, with all the powers the undersigned would possess if personally present upon the proposals set forth below, and upon such other business as may come before the meeting. As to the following proposals, each fully described in the Proxy Statement and Notice for the Meeting, receipt of which is acknowledged, said proxies shall vote as indicated upon:

FOR ☐ **AGAINST** ☐ (1) Amendment to the Corporation's Articles of Incorporation to reduce the par value of the Common Stock from $.025 to $.01 per share and to increase the number of authorized shares of Common Stock from 3,000,000 to 7,500,000 shares, each of the par value of $.01.

FOR ☐ **AGAINST** ☐ (2) Adoption of the Employees' Qualified Stock Option Plan (1969).

FOR ☐ **AGAINST** ☐ (3) Approval of an agreement providing for the merger of Interstate National Corporation with and into NSMC and authorization of officers of the Corporation to take any further action necessary or advisable to make such merger effective.

FOR ☐ **AGAINST** ☐ (4) Approval of agreements providing for the mergers of Five-Dollar-A-Day Tours, Inc., Frommer-Pasmantier Publishing Corporation, Mar-Clay Mills, Inc., Mailbag International, Inc. and MII Services, Inc. with and into NSMC and authorization of officers of the Corporation to take any further action necessary or advisable to make such mergers effective.

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Government's Exhibit 25

(5) Such other business as may properly come before the meeting.

Management and the Board of Directors recommend a favorable vote on all four proposals. **This Proxy will be voted in accordance with the above instructions, but where no indication is given it will be voted FOR all proposals.** This Proxy revokes any proxy or proxies heretofore given in respect to the shares covered hereby.

Dated: ....., 1969

.....

Your signature should appear exactly as your name appears on this proxy card. When signing in a fiduciary or representative capacity, please give your full title as such. Corporations must sign by an authorized officer. Joint owners should each sign personally.

(Be sure to SIGN, DATE and PROMPTLY RETURN this Proxy in the enclosed envelope.)

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EXCERPTS FROM GOVERNMENT'S EXHIBIT 32 FOR IDENTIFICATION

INTERSTATE COPY OF PROXY DRAFT (8/14/69)

NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS

The following consolidated statements of earnings of National Student Marketing Corporation and subsidiaries, insofar as it relates to the three years ended August 31, 1968 has been examined by Peat, Marwick, Mitchell & Co., independent certified public accountants, whose report is based in part on the reports of other auditors, as set forth in such reports included elsewhere in this Proxy Statement. With respect to the nine month periods ended May 31, 1968 and May 31, 1969, which are unaudited, the management of the company believes that all adjustments (none of which were other than normal recurring accruals) necessary to a fair statement of the results for such interim periods have been included. The consolidated statements of earnings should be read in conjunction with the consolidated financial statements and related notes thereto appearing elsewhere in this Proxy Statement.

	Year ended August 31, (note A)					Nine months ended May 31, (note B)	
	(unaudited)		(audited)			(unaudited)	
	1964	1965	1966	1967	1968	1968	1969
Net sales:							
Services	$	$	$1,661,956	$3,448,371	$ 5,799,644	$1,429,620	$ 4,344,938
Sales of products			996,218	2,204,489	5,508,766	3,111,460	7,480,939
			2,658,174	5,652,860	11,308,410	4,541,080	11,825,877
Cost of sales:							
Services			1,257,530	2,440,449	3,942,680	757,674	2,020,258
Sales of products			525,203	833,310	3,262,204	1,749,343	4,647,633
			1,782,733	3,273,759	7,204,884	2,507,019	6,667,721
Gross profit			875,441	2,379,101	4,103,526	2,034,063	5,157,956
Selling, general and administrative expenses			752,967	1,673,178	2,850,520	1,241,446	3,850,503
Operating profit			122,474	705,923	1,253,006	792,617	1,307,453
Interest expense			5,590	18,825	35,156	10,697	225,915
Earnings before income taxes and extraordinary credit			116,884	687,098	1,217,850	781,920	1,081,538
Provision for taxes on income:							
Federal and state—currently payable			29,935	261,883	397,451	306,877	92,818
Federal and state—deferred			12,000	41,000	241,769	—	437,342
Canadian—currently payable			—	5,580	21,620	—	—
			41,935	308,463	660,840	306,877	530,160
Earnings before extraordinary credit			74,949	378,635	557,010	475,043	551,378
Extraordinary credit—Federal income tax reduction:							
Carryforward of prior years operating loss			600	7,000	10,700	—	—
Reduction of deferred tax liability for tax effect on net operating loss carryforwards to future periods			—	—	188,750	—	437,342
Total extraordinary credits			600	7,000	199,450		437,342
Net earnings			$ 75,549	$ 385,635	$ 756,460	475,043	988,720
Average shares of common stock of the company outstanding during each period (note D)			1,970,000	2,378,000	2,608,500	2,473,007	2,830,777
Per average share of common stock (note D):							
Net earnings before extraordinary credit			.038	.159	.213	.192	.145
Extraordinary credit			—	.002	.077	—	.145
Net earnings			.038	.161	.290	.192	.340

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Excerpts from Government's Exhibit 32 for Identification

NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENT OF EARNINGS—(Concluded)

is best matched against costs directly connected with the production of this income by recording the estimated gross profit based on the percentage of time incurred to the total estimated time to be incurred by the employees in development of the over-all program for the client. Accordingly, commencing in 1968 all such programs have been accounted for on this basis upon obtaining a client commitment.

(C) Retroactive adjustment was made in the consolidated statement of earnings for the year 1968 for certain contract losses and for recognition of effect on deferred taxes of related net operating loss carryforwards. The net effect of the retroactive adjustment was a $21,000 decrease in net earnings for the year 1968.

(D) The average number of shares outstanding during each year has been adjusted: (1) for the stock split described in note 8 to the consolidated financial statements (2) to include the equivalent of the number of shares of common stock outstanding of companies acquired in certain transactions accounted for as poolings of interests and (3) to give effect to exercise of all outstanding stock options.

(E) Net sales and earnings as originally reported to stockholders in the annual report for the years 1967 and 1968 and original prospectus for the year 1966 and the amounts as shown in the summary of earnings in this proxy statement are reconciled as follows:

	1966	1967	1968
Net sales:			
Originally reported	$ 573,259	$2,386,500	$ 4,989,446
Retroactive adjustment for contract losses (note C)	—	—	(70,200)
Pooled companies reflected retroactively	2,084,915	3,266,360	6,389,164
	$2,658,174	$5,652,860	$11,308,410
Net earnings (loss):			
Originally reported	(4,510)	168,636	388,031
Retroactive adjustment for contract losses (note C)	—	—	(21,000)
Pooled companies reflected retroactively	80,059	217,019	389,429
Per summary of earnings	$ 75,549	$ 385,635	$ 756,460

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GOVERNMENT'S EXHIBIT 46A

NSMC FINANCIAL REPORT FOR NINE MONTHS ENDING 5/31/68

SERVING THE

nsmc

YOUTH MARKET

FINANCIAL REPORT

NINE MONTHS 1967-1968

IMPORTANT DEVELOPMENTS

- Sales for nine months up 65% to $3.3 million
- Net earnings more than doubled to $288,390 or 41¢ per share.
- Acquisition of Shaffer Enterprises Inc.
- Agreement for acquisition of Compujob Inc.
- Establishment of DECA division in NSMC.

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Government's Exhibit 46A

Report to Stockholders

We are pleased to report that your company has continued its rapid growth and expansion with a major increase in sales and earnings for the nine months period ending May 31, 1968. We had set a goal of 40¢ a share for net earnings for our fiscal year ending August 31, 1968. We have exceeded that goal in the first nine months of this year.

Sales rose from $2,014,485 for the first nine months of 1967 to $3,318,142 for the same period this year. This was an increase of $1,300,000 for this period. Operating revenues climbed from $1,254,045 for the nine month period in 1967 to $1,952,520 for the 1968 period or an increase of nearly $700,000.

Net income for the nine months period totaled $288,390 as compared with $118,456 for the similar period of 1967. During this same period per share earnings were 41¢ compared with 18¢ in 1967.

The financial statement in this report reflects the acquisition of Shaffer Enterprises, Inc. of Kansas City, Missouri, which has just been completed.

On July 31, 1968, your company had 165 full time employees. Our field staff will be increased this fall with 40 men working in the field and 700 representatives at college campuses throughout this country and Canada.

NSMC has recently opened another office in San Francisco and a second office in Boston in the Prudential Building. NSMC is now maintaining a total of eleven offices in the United States and Canada.

NSMC has employed top flight executives and salesmen for the various offices. These are experienced businessmen who have a reputation for producing and they are living up to that reputation since teaming up with our organization. By establishing offices in various cities in this country and Canada, we are bringing our people closer to clients in these respective areas and making our company a part of the local community.

Our growth and expansion has been such that it has been difficult to match our office space with the growing number of employees. In Washington we now occupy a major part of the top floor of the new office building at 1100 Connecticut Avenue, N.W. In New York City we have already outgrown our office quarters which we occupied in January of this year and have recently occupied approximately half of the 35th floor of the Time-Life Building in Rockefeller Center.

Many stockholders have inquired as to papers carrying quotations on our stock. We have been advised by the Quotation Bureau of the National Association of

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Government's Exhibit 46A

Security Dealers that NSMC stock has been approved for weekly quotation coverage in the major New York newspapers beginning August 12, 1968.

NSMC has received excellent publicity in the National News Media. Articles covering operations of your company have appeared recently in a number of leading national magazines - The Post, April/May, 1968; Time, May 31, 1968; Marketing Communications, July 1968; and Forbes, August 1, 1968. There have also been news items in the Wall Street Journal. These articles have created added interest on the part of many companies who have contacted NSMC seeking ways and means to reach the youth market with their products.

In our letter to our stockholders - June 21 we mentioned that it was our company's policy to be aware of attractive opportunities for continued growth through acquisitions as well as internal development.

In this connection NSMC has recently acquired Shaffer Enterprises, Inc. of Kansas City, Missouri on an exchange of stock basis. Shaffer Enterprises Inc. is the largest list company in the country. The business has increased approximately 30 percent in the past two years and their sales of lists this year are running 20-25 per cent over last year. Shaffer has estimated sales this year of approximately $1,000,000 and earnings of $90,000 after taxes. Shaffer Enterprises has been in operation about 20 years. It leases a three story office building in Kansas City and employs 65 people. Like National Student Marketing Corporation, its operations are computerized.

Your company, through its subsidiary, Collegiate Advertising, Ltd., is a majority stockholder in International Record Corporation Ltd., a record processing company which has been organized in Vancouver, B.C., Canada. This company will process records primarily for the Canadian market. A survey of the Canadian market for records indicates a real potential to develop a record industry in our neighboring country to the North which would have a competitive advantage in freight, duty and delivery. The plant is expected to be in operation this October.

We have tried to set forth in this statement some of the important projects of NSMC and outline some of the basic reasons why we believe the future growth of your company is assured.

Cortes W. Randell

August 6, 1968 *Cortes W. Randell, President*

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Government's Exhibit 46A

NATIONAL STUDENT MARKETING CORPORATION

Consolidated Statements of Income (Note A)

	Nine Months Ended May 31,	
	1968 (unaudited)	1967 (unaudited)
Gross volume from services and products	$3,318,142	$2,014,485
Operating revenues	1,952,520	1,254,045
Operating costs and expenses	993,312	724,253
Sales, general and administrative expenses	491,253	340,163
Operating income	467,955	189,629
Interest expense	5,859	5,063
Income before income taxes and extraordinary items	462,096	184,566
Provisions for income tax (B)		
Current Income Tax	52,206	43,610
Deferred Income Tax	121,500	27,000
	173,706	70,610
Income before extraordinary item	288,390	113,956
Extraordinary item: Federal income tax reduction from carry-forward of prior years' operating losses		4,500
Net income	$ 288,390	$ 118,456
Per share of common stock (Note C):		
Income (before extraordinary item)	$ .41	$ .17
Extraordinary item		.01
Net income	$ .41	$ .18

Notes to Consolidated Statements of Income
For The Nine Months Ended May 31, 1968 and 1967

(A) The consolidated statement of income for the nine months ended May 31, 1968 and 1967 represents the consolidation of the results of operations of National Student Marketing Corporation and subsidiaries and includes Shaffer Enterprises, Inc. recently acquired.

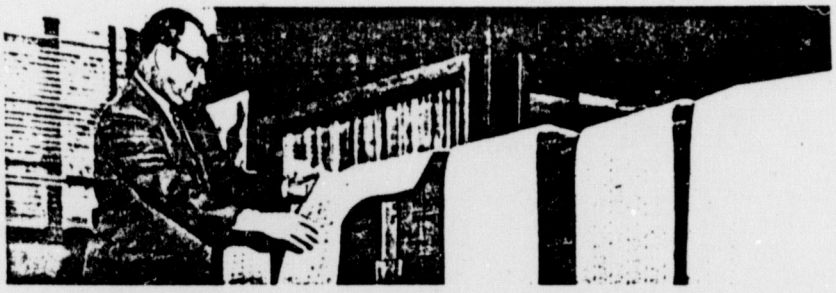
(B) Provisions for U.S. Income Tax includes 10% Surtax which amounted to 1¢ per share.

(C) Per share computations for the nine months ended May 31, 1968 and 1967 have been computed on an average of 705,600 and 665,000 shares respectively, and gives effect to all stock transactions arising from the acquisition of the corporate subsidiaries.

17909

E 409

Government's Exhibit 46A



Mr. Shaffer of Shaffer Enterprises reviewing the beginning of our IBM printouts of Cheshire labels fanfold type covering a portion of a two million name order.

New Offices in Kansas City Highlight NSMC Expansion Program

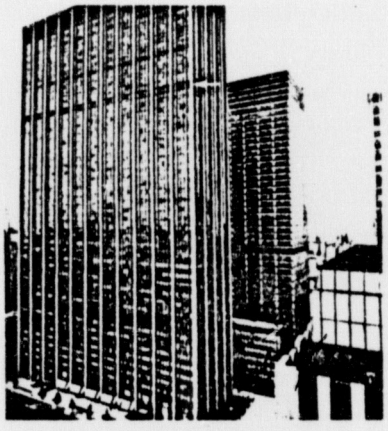
NSMC is pleased to announce an agreement in principle for the acquisition of Compujob Inc., which will make use of its computors to assist employers in hiring the best qualified graduating seniors from colleges all over the country. Through its national system of representatives, NSMC will distribute questionnaires which college seniors will complete. These are in turn matched weekly with employer requirements for college graduates. The system is an efficient method for large companies to screen out potential employees matching graduating college seniors by computer. It is hoped that information on 60,000 graduating college students will be computerized and matched with specific requirements of participating employers by this fall. Although this Compujob program has just started, a number of large companies have contracted for this service. Clients to date include Mobile Oil, Continental Can, Seagrams and Metropolitan Life Insurance Co. Belding Hemingway and Allied Chemical have also engaged Compujob in recruiting their employees.

Shaffer Enterprises Inc. compiles each year the names and addresses of some 3,000,000 students from vocational schools and high schools and has the only list of veterans available in the country. These lists are sold to various companies who use them in direct mailing. Since NSMC has a very large direct mailing business, Shaffer Enterprises is very important to your company operations.

Recently NSMC has made another penetration in the Youth Market. NSMC has entered into a

E 410

Government's Exhibit 46A



Our new New York Offices in Time-Life Building, Rockefeller Center.

One of twenty-nine company warehouses stocked for full operations.

working arrangement with the national office of DECA clubs in high schools in a concerted effort to supplement the educational and motivational tools available to students in the areas of management merchandising and marketing. These high school clubs will sell the products and services of NSMC to high school students similarly as the college representatives sell the products and services of NSMC to college students.

To carry out this program NSMC has established a division in the company, Educational Marketing Services—headed up by Ronald Bishop, National DECA President 1964-1965. EMS projects will be competitive on a national level with valuable prizes awarded to the winning schools. To maintain direct correlation with DECA, the president of NSMC was elected to the National Advisory Board of DECA.

The EMS program is planned to be operational in 22 states this fall with 4 additional states joining the program in December. EMS will involve 1,500 schools in supplementing educational tools to 50,000 DECA students and providing marketing benefits to 1-1/2 million youth.

nsmc

NATIONAL STUDENT MARKETING CORPORATION

"Serving the Youth Market"

1100 Connecticut Avenue, N.W.
Washington, D.C. 20006

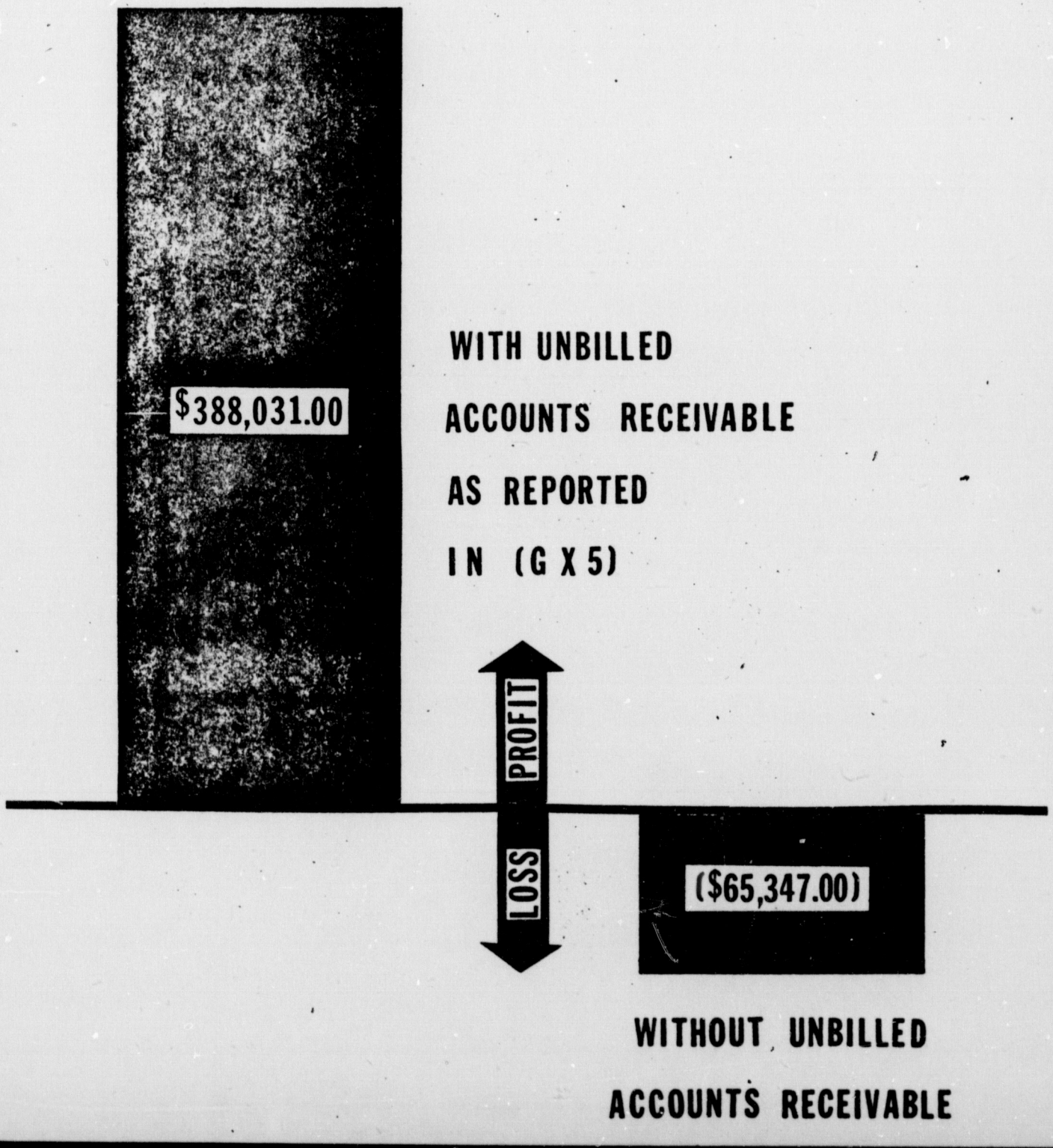
E 411

GOVERNMENT'S EXHIBIT 65-2

CHART

1968

N S M C CONSOLIDATED NET EARNINGS



E 412

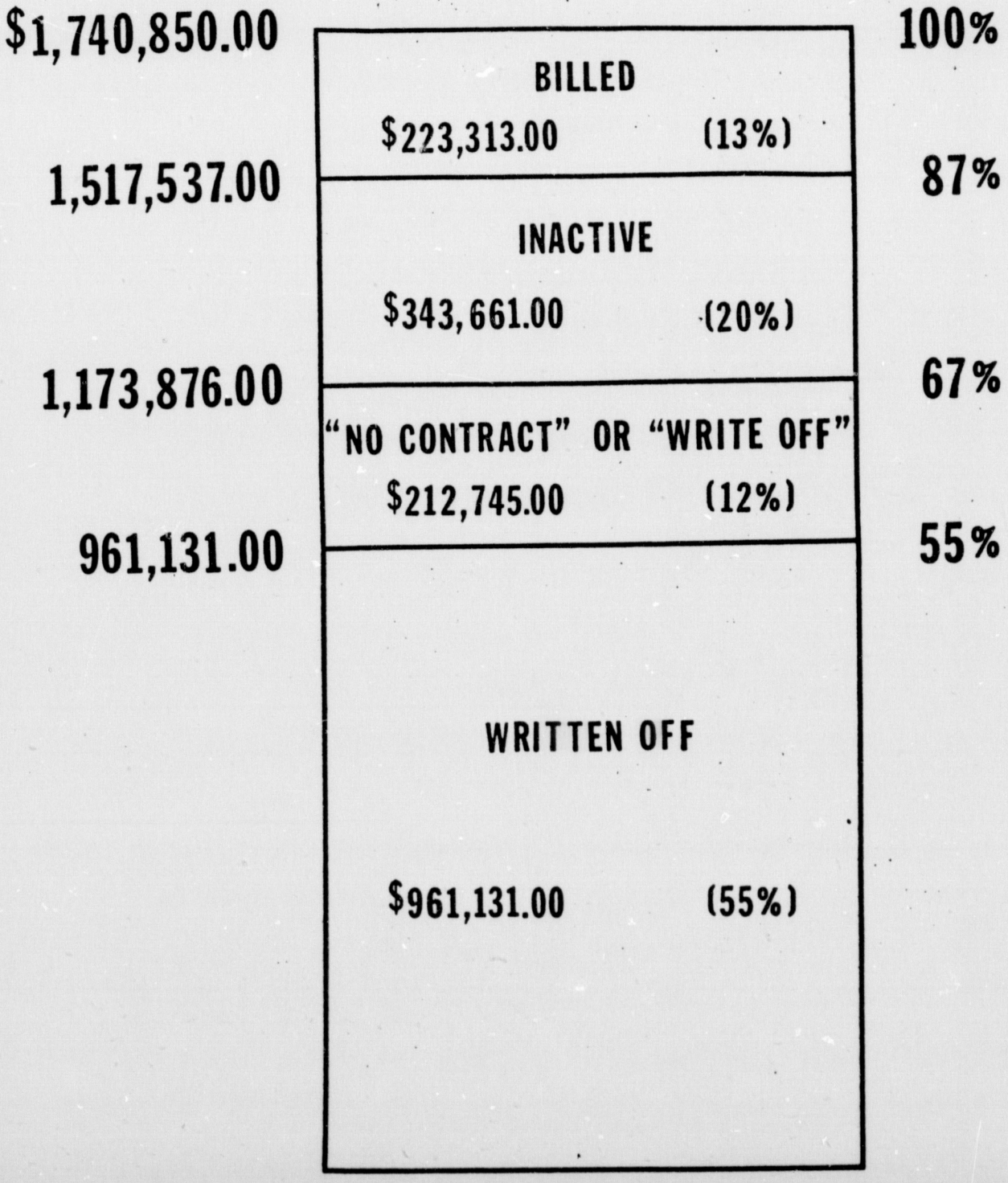
GOVERNMENT'S EXHIBIT 65-5

CHART

STATUS OF 1968

UNBILLED ACCOUNTS RECEIVABLE AS OF JUNE 9,1969.

SUMMARY OF ENTRIES IN G x 3,13, 15



E 413

GOVERNMENT'S EXHIBIT 65-9

CHART

NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited as to May 31, 1969)

(1) Basis of Presentation

The consolidated financial statements include the accounts of the company and all subsidiaries. All material inter-company accounts and transactions have been eliminated. The accounts of the company's Canadian subsidiary, Collegiate Advertising Ltd. have been converted at appropriate U. S. dollar equivalents. Collegiate formed a subsidiary in May 1968 which was not yet operative as of August 31, 1968, and the investment therein was therefore carried at cost at that date. The accounts of this subsidiary are included in the May 31, 1969 consolidated financial statements.

The company formed a subsidiary, International Student Marketing Corporation, in September 1968. This subsidiary had not commenced operations as of May 31, 1969 and the investment therein is carried at cost at the date.

Retroactive adjustment was made in the consolidated statement of earnings for the year 1968 for certain contract losses and for recognition of effect on deferred taxes of related net operating loss carryforwards. The net effect of the retroactive adjustment was a $21,000 decrease in net earnings for the year 1968.

As described in note 2, certain acquisitions have been included in the accompanying financial statements in accordance with the pooling of interests concept of accounting. Accordingly, operations of these acquired subsidiaries are included in the accompanying consolidated financial statements as explained in note A to the consolidated statement of earnings.

DRAFT PROXY G x 17A

AUGUST 9, 1969

E 414

Government's Exhibit 65-9

NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited as to May 31, 1969)

(1) Basis of Presentation

The consolidated financial statements include the accounts of the company and all subsidiaries. All material inter-company accounts and transactions have been eliminated. The accounts of the company's Canadian subsidiary, Collegiate Advertising Ltd. have been converted at appropriate U. S. dollar equivalents. Collegiate formed a subsidiary in May 1968 which is not yet operative as of August 31, 1968, and the investment therein was therefore carried at cost at that date. The accounts of this subsidiary are included in the May 31, 1969 consolidated financial statements.

The company formed a subsidiary, International Student Marketing Corporation, in September 1968. This subsidiary had not commenced operations as of May 31, 1969 and the investment therein is carried at cost at this date.

[redacted] adjustment was made in the consolidated statement of earnings for the year 1968 for certain items [redacted] The net effect of the [redacted] was $2,160 credit to the 6 mos. earnings for the year 1968.

As described in note 2, certain acquisitions have been included in the accompanying financial statements in accordance with the pooling of interests concept of accounting. Accordingly, operations of these acquired subsidiaries are included in the accompanying consolidated financial statements as explained in note A to the consolidated statement of earnings.

MASTER PROOF G x 17
AUGUST 9, 1969

E 415

Government's Exhibit 65-9

NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited as to May 31, 1969)

(1) Basis of Presentation

The consolidated financial statements include the accounts of the company and all subsidiaries. All material inter-company accounts and transactions have been eliminated. The accounts of the company's Canadian subsidiary, Collegiate Advertising, Ltd. have been converted at appropriate U. S. dollar equivalents. Collegiate formed a subsidiary in May 1968 which was not yet operative as of August 31, 1968, and the investment therein was therefore carried at cost at that date. The accounts of this subsidiary are included in the May 31, 1969 consolidated financial statements.

The company formed a subsidiary, International Student Marketing Corporation, in September 1968. This subsidiary had not commenced operations as of May 31, 1969 and the investment therein is carried at cost at this date.

As described in note 2, certain acquisitions have been included in the accompanying financial statements in accordance with the pooling of interests concept of accounting. Accordingly, operations of these acquired subsidiaries are included in the accompanying consolidated financial statements as explained in note A to the consolidated statement of earnings.

FINAL PROXY G x 25

E 416

GOVERNMENT'S EXHIBIT 65-10

CHART

DRAFT PROXY G x 17A
AUGUST 9, 1969

NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENT OF EARNINGS—(Concluded)

...n best matched against costs directly connected with the production of this income by recording the estimated gross profit based on the percentage of time incurred to the total estimated time to be incurred by the employees in development of the over-all program for the client. Accordingly, commencing in 1968 all such programs have been accounted for on this basis upon obtaining a client commitment.

(C) Retroactive adjustment was made on the consolidated statement of earnings for the year 1968 for certain contract losses and for recognition of effect on deferred taxes of related net operating loss carryforwards. The net effect of the retroactive adjustment was a $21,000 decrease in net earnings for the year 1968.

(D) The average number of shares outstanding during each year has been adjusted: (1) for the stock split described in note 8 to the consolidated financial statements (2) to include the equivalent of the number of shares of common stock outstanding of companies acquired in certain transactions accounted for as poolings of interests and (3) to give effect to exercise of all outstanding stock options.

(E) Net sales and earnings as originally reported to stockholders in the annual report for the years 1967 and 1968 and original prospectus for the year 1966 and the amounts as shown in the summary of earnings in this proxy statement are reconciled as follows:

	1966	1967	1968
Net sales			
Originally reported	$ 573,259	$2,386,500	$ 4,989,446
Retroactive adjustment for contract losses (note C)	—	—	(70,200)
Pooled companies reflected retroactively	2,084,915	3,266,360	6,389,164
	$2,658,174	$5,652,860	$11,308,410
Net earnings (loss)			
Originally reported	(4,510)	168,616	388,051
Retroactive adjustment for contract losses (note C)	—	—	(21,000)
Pooled companies reflected retroactively	80,059	217,019	389,429
Per summary of earnings	$ 75,549	$ 385,635	$ 756,480

0750085

E 417

Government's Exhibit 65-10

MASTER PROOF G x 17
AUGUST 9, 1969

NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENT OF EARNINGS—(Continued)

is best matched against costs directly connected with the production of this income by recording the estimated gross profit based on the percentage of time incurred to the total estimated time to be incurred by the employees in development of the over-all program for the client. Accordingly, commencing in 1968 all such programs have been accounted for on this basis upon obtaining a client commitment.

[redacted]

(D) The average number of shares outstanding during each year has been adjusted: (1) for the stock split described in note 8 to the consolidated financial statements (2) to include the equivalent of the number of shares of common stock outstanding of companies acquired in certain transactions accounted for as poolings of interests and (3) to give effect to exercise of all outstanding stock options

(E) Net sales and earnings as originally reported to stockholders in the annual report for the years 1967 and 1968 and original prospectus for the year 1966 and the amounts as shown in the summary of earnings in this proxy statement are reconciled as follows

	1966	1967	1968
Net sales			
Originally reported	$ 573,259	$2,306,500	$ 4,909,446
[redacted]			
Pooled companies reflected retroactively	2,084,915	3,266,360	[redacted]
Per other financial	$2,658,174	$5,652,860	[redacted]
Net earnings (loss)			
Originally reported	(4,510)	168,616	388,031
[redacted]			
Pooled companies reflected retroactively	80,059	217,019	[redacted]
[redacted]	$ 75,549	$ 385,635	$ 756,460

Figures for 1968 have been restated on certain matters to make this presentation consistent with current accounting practice. There are no material effect as a result of such restatement.

(3) Foreign study programs:

The operations of New England Travel Corporation (a wholly-owned subsidiary described elsewhere in the Proxy Statement) involve arrangements by the company of study programs abroad during the summer months for high school students. Results of operations are accounted for during the summer months as the study programs are completed and students return to the United States. Consequently, all costs are deferred during the first nine months of the year. As a result the unaudited [redacted] month figures in the consolidated statements of earnings exclude any operations of New England Travel Corporation. [redacted]

E 418

Government's Exhibit 65-10

FINAL PROXY G x 25

NATIONAL STUDENT MARKETING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENT OF EARNINGS—(Concluded)

is best matched against costs directly connected with the production of this income by recording the estimated gross profit based on the percentage of time incurred to the total estimated time to be incurred by the employees in development of the over all program for the client. Accordingly, commencing in 1968 all such programs have been accounted for on this basis upon obtaining a client commitment.

(3) Foreign study programs

The operations of New England Travel Corporation (a wholly-owned subsidiary described elsewhere in the proxy statement) involve arrangements by the company of study programs abroad during the summer months for high school students. Results of operations are accounted for during the summer months as the study programs are completed and students return to the United States. Consequently, all income and costs are deferred during the first nine months of the year. As a result, the unaudited nine month figures in the consolidated statement of earnings exclude any operations of New England Travel Corporation.

(C) Figures for 1968 have been restated in certain instances to make their presentation consistent with current accounting practices. There was no material effect as a result of such restatement.

(D) Net sales and earnings as originally reported to stockholders in the annual reports for the years 1967 and 1968 and original prospectus for the year 1966 and the amounts as shown in the statement of earnings in this proxy statement are reconciled as follows:

	1966	1967	1968
Net sales:			
Originally reported	$ 573,259	$2,386,500	$ 4,989,446
Pooled companies reflected retroactively	2,084,915	3,266,360	6,552,449
Per statement of earnings	$2,658,174	$5,652,860	$11,541,895
Net earnings (loss):			
Originally reported	(4,510)	168,616	388,031
Pooled companies reflected retroactively	80,059	217,019	385,121
Per statement of earnings	$ 75,549	$ 385,635	$ 773,152

(E) National Student Marketing Corporation has not paid any dividends except for $20,000 paid to the sole stockholder in connection with a reorganization prior to the shares of common stock of the company becoming publicly held.

Comments on Consolidated Statement of Earnings of National Student Marketing Corporation and Subsidiaries

The Company's subsidiary, Impressions by M Inc. did not begin to sell products until 1967. Therefore, since 1968 was the first full year of operations, there was a substantial increase in sales for the year ended August 31, 1968. As a result, because of the relatively low gross profit margin on these sales, which is characteristic of the industry, the cost of product sales increased from 39% to 60% as compared to an increase in product sales to 50% of total Company sales.

As explained in note B-3 of notes to consolidated statement of earnings, all revenues and expenses of the Company's subsidiary, New England Travel Corporation, are deferred during the first nine months of the year and accounted for during the last quarter. As a result, gross revenues increased substantially during the last quarter of 1968 as compared to the first nine months of that year. However, because the profit margin of these sales is lower than the average of the other companies included in the consolidated statement of earnings, net earnings do not reflect a proportionate increase.

During the second and third quarters of 1969, twenty-three middle management personnel were hired both to stabilize present operations and in expectation of future growth. The cost of expanding management personnel, along with interest cost of $200,000 incurred by borrowing $5,000,000, of which $3,000,000 was used for the acquisition of Guest Pac and $2,000,000 to finance internal growth, had an adverse effects on net earnings for the nine months ended May 31, 1969.

N S M C CONSOLIDATED 1968 SALES PER NOTE D,

FINAL PROXY G x 25

(D) Net sales and earnings as originally reported to stockholders in the annual reports for the years 1967 and 1968 and original prospectus for the year 1966 and the amounts as shown in the statement of earnings in this proxy statement are reconciled as follows:

	1966	1967	1968
Net sales:			
Originally reported	$ 573,259	$2,386,500	$ 4,989,446
Pooled companies reflected retroactively	2,084,915	3,266,360	6,552,449
Per statement of earnings	$2,658,174	$5,652,860	$11,541,895

NOT DISCLOSED:

OVER $1,000,000.00 OF N S M C 1968 SALES ORIGINALLY REPORTED HAVE BEEN WRITTEN OFF.

$748,762.00 OF THESE SALES LOSSES ARE SUBTRACTED FROM POOLED COMPANIES, NOT FROM N S M C.

GOVERNMENT'S EXHIBIT 65-11 CHART

E 419

N S M C CONSOLIDATED 1968 EARNINGS PER NOTE D,

FINAL PROXY G x 25

	1966	1967	1968
Net earnings (loss):			
Originally reported	(4,510)	168,616	388,031
Pooled companies reflected retroactively	80,059	217,019	385,121
Per statement of earnings	$ 75,549	$ 385,635	$ 773,152

NOT DISCLOSED:

($209,750.00) GROSS PROFIT WRITTEN OFF

$188,750.00 TAX CREDIT FROM OPERATING LOSS CARRY FORWARD

NET ($21,000.00) N S M C LOSS HAS BEEN SUBTRACTED FROM POOLED COMPANIES, INSTEAD OF FROM N S M C.

CHART

GOVERNMENT'S EXHIBIT 65-12

E 420

E 421

GOVERNMENT'S EXHIBIT 65-14

CHART

STATUS OF 1968 AND 1ST HALF 1969 UNBILLED ACCOUNTS RECEIVABLE SALES AS OF AUGUST 18, 1969. SUMMARY OF ENTRIES IN G x 3, 13, 15

$3,347,775.00 — 100%

BILLED OR BILLED IN PART

$858,274.00 (26%)

$2,489,501.00 — 74%

INACTIVE

$123,006.00 (4%)

$2,366,495.00 — 70%

"BAD" OR "TO BE WRITTEN OFF"

$310,972.00 (9%)

$2,055,523.00 — 61%

WRITTEN OFF

$2,055,523.00 (61%)

E 422

GOVERNMENT'S EXHIBIT 65-15

CHART

CLIENT	AMOUNT	MAY, 1969 REVIEW			AUGUST, 1969 REVIEW			COMFORT LETTER
		DATE	ACCOUNTANT	COMMENT	DATE	ACCOUNTANT	COMMENT	
BARNES - HIND	$22,400.00	5/22	J.S.	DELETE	8/15	D.H.O.	BAD	—
CAMPANA	21,900.00	5/22	J.S.	WRITE OFF	8/15	D.H.O.	BAD	•
FABERGE	53,775.00	5/22	J.S.	NO CONTRACT	8/15	D.H.O.	BAD	•
GOSSARD	53,775.00	5/22	J.S.	NO CONTRACT	8/15	D.H.O.	BAD	•
PACE	14,492.00	5/22	J.S.	WRITE OFF	—	—	—	•
CARNATION	11,200.00	5/22	J.S.	DELETE	—	—	—	—
BARNES - HIND	47,850.00	—	—	—	8/15	D.H.O.	BAD	•
BIZAAR	5,580.00	—	—	—	8/15	D.H.O.	BAD	•
EASTERN	27,000.00	—	—	—	8/15	D.H.O.	BAD	—
SCHICK	30,000.00	—	—	—	8/16	D.H.O.	DUPLICATED	•
TANYA	32,200.00	—	—	—	8/15	D.H.O.	BAD	—
SUB TOTAL	320,172.00							
EASTERN	519,152.00							
TOTAL	$ 839,324.00							

8/15 DHO BOOKED

E 423

NATELLI'S EXHIBIT B

CONTRACT IN PROGRESS MEMO

Prepared by
Approved by

T-54

BLC

Contract-To-Procure

Style

Comment

The Company's first and effort in developing programs on a fund-paid basis. These programs are then presented to a prospective client and a commitment is received from the client. The function (for making programs) is the [illegible]

The fund has been for the Company to [illegible] client pay [illegible] and distribute costs directly [illegible] when the [illegible] programs. The distribution is done by the client [illegible]

E4230

S-134

E 424

Natelli's Exhibit B

N.S.M.C.

Contracts-Eq-Procedure Ord D

Plot

	Initials	Date
Prepared By		
Approved By		

The Contracting Officer

The Contracting Officer

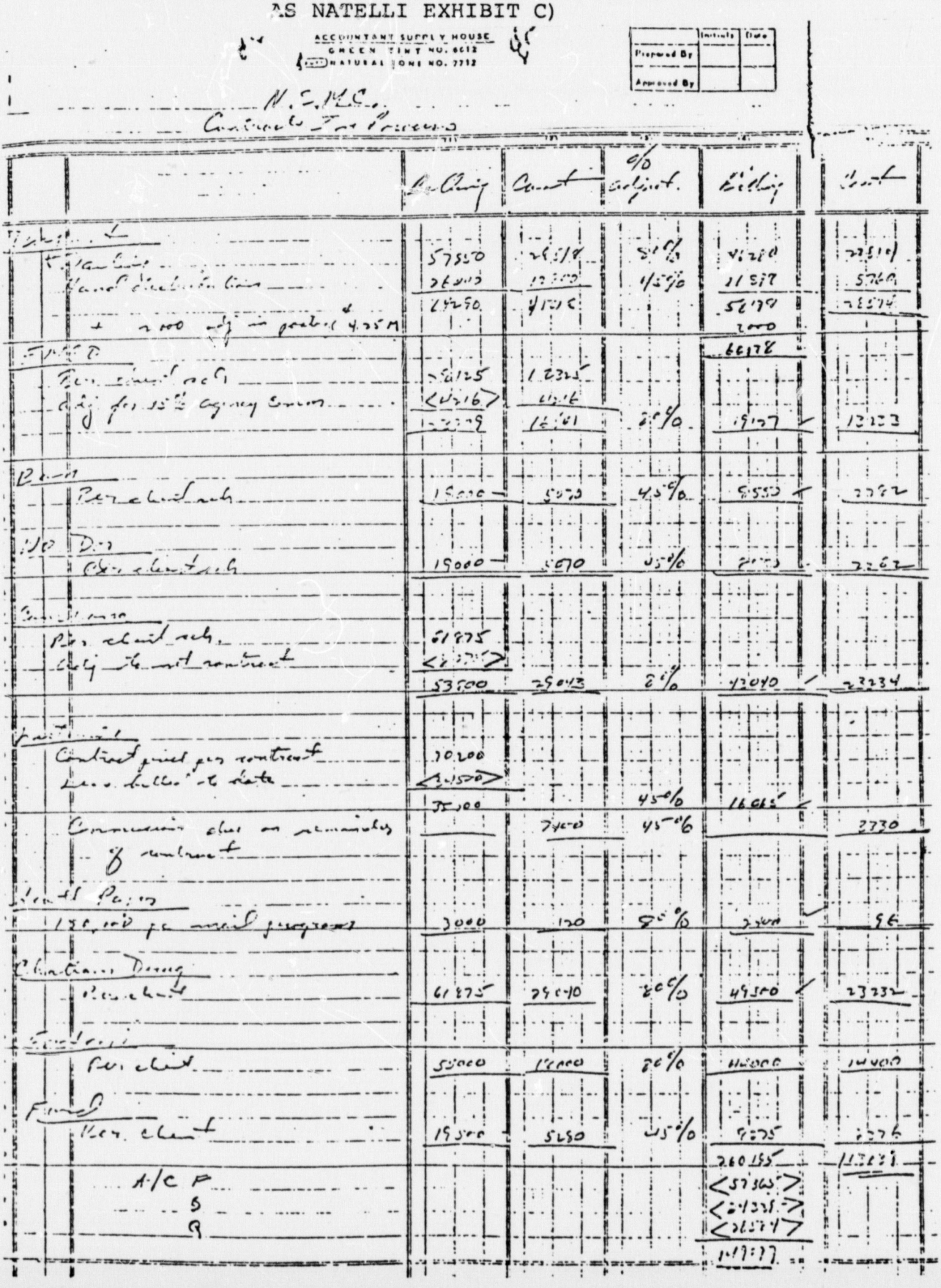
The Contracting Officer

S-135

E 425

NATELLI'S EXHIBIT C1

ONE PAGE OF DOCUMENTS USED IN PREPARATION OF MAY 31, 1969 FINANCIAL STATEMENTS (ENTIRE DOCUMENT IDENTIFIED AS NATELLI EXHIBIT C)



E 426

NATELLI'S EXHIBIT G

PROGRAM COMMITMENT LETTER

Exhibit A

PROGRAM COMMITMENT LETTER

Date: _____

TO: National Student Marketing Corporation

This is to confirm our verbal commitment to Mr. _____ that sometime during _____ we will utilize
Period: (Month, Season, etc.)

National Student Marketing Corporation to undertake a marketing, promotional, and/or advertising program representing a gross billing to us of approximately $_____.

Sincerely,

_____
(Authorized Signature)

_____
(Name of Company)

_____
(Address)

E 427

NATELLI'S EXHIBIT H

MEMO FROM KUREK TO RANDELL (8/7/69)

B. J. Kurek
C. W. Randell
August 7, 1969

HV001449

IN RE: Pontiac

Yesterday while meeting with PMM & Co. on the proxy information, Tony Natelli indicated since we don't have a contract and haven't collected any money on the contract, he had reservations about including it in the proxy since it was so near to August 31.

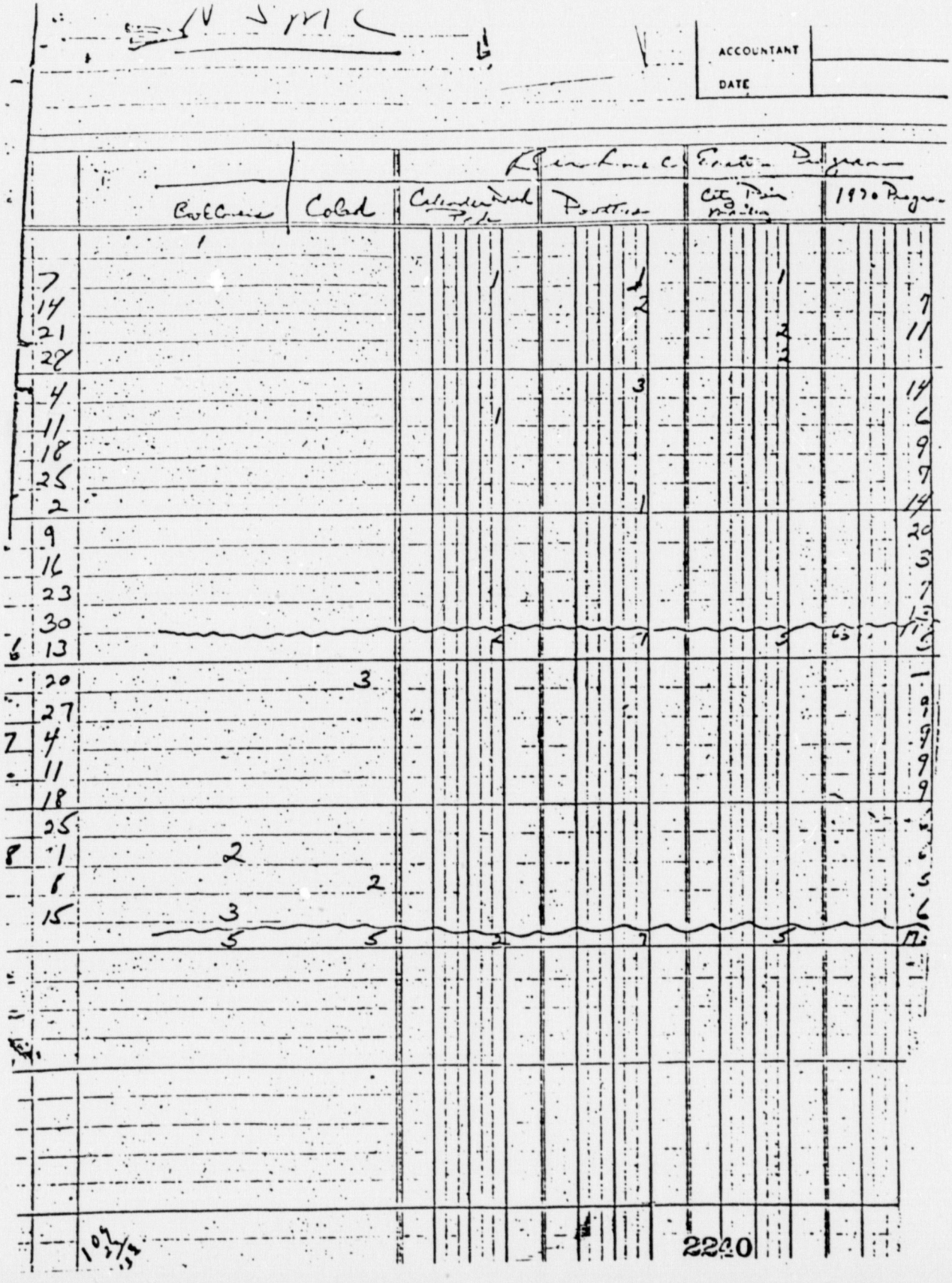
To be frank, I avoided the problem and got onto another subject..... BUT..... gentlemen, we've got to get a contract or purchase order for our records by August 31, 1969. Please, give this matter some attention.... it's roughly $650,000. in gross profit that stands being deleted from our books.

BJK:ls
cc: R. O. Walther
D. Kelly

E 428

NATELLI'S EXHIBIT J

PAPERS FROM WORK PAPERS OF NSMC (INCLUDING BUSHNELL'S TIME RECORDS) (PP. 2243-2281)



E 429

Natelli's Exhibit J

EASTERN AIRLINES

YOUTH FARE DATA

ANALYSIS

The attached exhibits, which detail youth fare miles, passengers and revenues by month, indicate the following:

1. Eastern's move to the 2/3 fare reserved seat plan was a good one resulting in an improving ratio of revenues to miles and passengers as a percent of the domestic system.

2. Heavy usage of eastern for summer travel without any real advertising/promotion emphasis against this area.

3. Very low usage of Eastern during the Fall of the year, probably due to a high number of week-end "black out" period.

4. A continually increasing importance of the youth fare program to the Airline.

NATIONAL STUDENT MARKETING CORPORATION

Do Not Use: [ ]

BUSINELLI
A. E. Last Name Only

ACCOUNT EXECUTIVES' TIME LOG

WEEK ENDING [0][3] Month [0][7] Day [7][2] Year

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total	Accounting Use Only
	EASTERN		Calendar Desk Pad		1				01	
	EASTERN		Poster			1			01	
	EASTERN		City Pan Mailing					1	01	
	AMERICAN		Poster				2		02	

E 430
Natelli's Exhibit J

NATIONAL STUDENT MARKETING CORPORATION

Do Not Use

Rosnell
A. E. Last Name Only

ACCOUNT EXECUTIVES' TIME LOG

WEEK ENDING 03 (Month) 24 (Day) 69 (Year)

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total	Accounting Use Only
	EASTERN		Poster		2				02	
	EASTERN		1970 Youth Program	1		3	2	1	07	
	[illegible]		Poster		1				01	

E 431
Natelli's Exhibit J

NATIONAL STUDENT MARKETING CORPORATION

Do Not Use

A. E. Last Name Only

ACCOUNT EXECUTIVES' TIME LOG

WEEK ENDING Month Day Year

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total	Accounting Use Only

E 432
Natelli's Exhibit J

NATIONAL STUDENT MARKETING CORPORATION

Do Not Use

A. E. Last Name Only

ACCOUNT EXECUTIVES' TIME LOG

WEEK ENDING Month Day Year

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total	Accounting Use Only
	[illegible]		[illegible]							
	[illegible]		[illegible]							
	[illegible]		[illegible]							

E 433

Natelli's Exhibit J

NATIONAL STUDENT MARKETING CORPORATION

Do Not Use

Rosnell
A. E. Last Name Only

ACCOUNT EXECUTIVES' TIME LOG

WEEK ENDING Month 04 Day 04 Year 69

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total	Accounting Use Only
	American		Fall 1969 Program		2	4	3		09	
	Eastern Airlines		Pastno	3					03	
	Eastern Airlines		1970 Program		6			8	14	

E 434
Natelli's Exhibit J

NATIONAL STUDENT MARKETING CORPORATION

Do Not Use

A. E. Last Name Only

ACCOUNT EXECUTIVES' TIME LOG

WEEK ENDING Month Day Year

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total	Accounting Use Only

E 435

Natelli's Exhibit J

NATIONAL STUDENT MARKETING CORPORATION

Do Not Use

Business
A. E. Last Name Only

ACCOUNT EXECUTIVES' TIME LOG

WEEK ENDING 04 (Month) 16 (Day) 67 (Year)

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total	Accounting Use Only
	EASTERN Airlines		1970 Program	2	3		4		09	
	American		Newspaper			1			01	
			Calendar Desk Pad				2		02	
			City Pair Mailing					3	03	

E 436
Natelli's Exhibit J

NATIONAL STUDENT MARKETING CORPORATION

Do Not Use

RUSSNELL — A. E. Last Name Only

ACCOUNT EXECUTIVES' TIME LOG

WEEK ENDING 10 (Month) 25 (Day) 69 (Year)

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total	Accounting Use Only
	American		City Pair			3			03	
	"		Calendar Desk Aid		1				01	
	"		Posters			2			02	
	Eastern		1970 Program				5	2	07	

E 437

Natelli's Exhibit J

NATIONAL STUDENT MARKETING CORPORATION

Do Not Use

A. E. Last Name Only

ACCOUNT EXECUTIVES' TIME LOG

WEEK ENDING Month Day Year

0522

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total	Accounting Use Only

E 438

Natelli's Exhibit J

NATIONAL STUDENT MARKETING CORPORATION

Do Not Use

Russell
A. E. Last Name Only

ACCOUNT EXECUTIVES' TIME LOG

WEEK ENDING 06 (Month) 07 (Day) 69 (Year)

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total	Accounting Use Only
	American		Newspaper		3				03	
	Enstrom		1970 Plan	2		8	8	2	20	

E 439
Natelli's Exhibit J

NATIONAL STUDENT MARKETING CORPORATION

Do Not Use

Russell
A. E. Last Name Only

ACCOUNT EXECUTIVES' TIME LOG

WEEK ENDING Month 05 Day 16 Year 69

2352

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total	Accounting Use Only
	Eastern Airlines		1970 Plan	1	2				03	
	American		Calendar Day IL		·			1	01	
			Poster		2		5		07	
			Newspaper			3	·		03	
			City Pam Mailing		2				02	

E 440
Natelli's Exhibit J

NATIONAL STUDENT MARKETING CORPORATION

ACCOUNT EXECUTIVES' TIME LOG

Do Not Use

A. E. Last Name Only

WEEK ENDING Month Day Year

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total	Accounting Use Only

E 411

Natelli's Exhibit J

NATIONAL STUDENT MARKETING CORPORATION

Do Not Use

A. E. Last Name Only

ACCOUNT EXECUTIVES' TIME LOG

WEEK ENDING Month Day Year

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total	Accounting Use Only

E 442

Natelli's Exhibit J

NATIONAL STUDENT MARKETING CORPORATION

Do Not Use

BUSHNELL
A. E. Last Name Only

ACCOUNT EXECUTIVES' TIME LOG

WEEK ENDING 06 (Month) 06 (Day) 69 (Year)

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total	Accounting Use Only
	American Airlines		1970 Program	5		6			11	

E 443

Natelli's Exhibit J

NATIONAL STUDENT MARKETING CORPORATION

Do Not Use

BUSINELL
A. E. Last Name Only

ACCOUNT EXECUTIVES' TIME LOG

WEEK ENDING 03 (Month) 13 (Day) 67 (Year)

2253

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total	Accounting Use Only
	American Airlines		1970 Program			6	4		06	
	"		Hispanic		5		1		06	
	"		City Plan			3			03	
	Eastern		1970 Program	1			4		05	

E 441
Natelli's Exhibit J

NATIONAL STUDENT MARKETING CORPORATION

Do Not Use

A. E. Last Name Only

ACCOUNT EXECUTIVES' TIME LOG

WEEK ENDING Month Day Year

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total	Accounting Use Only

E 445

Natelli's Exhibit J

NATIONAL STUDENT MARKETING CORPORATION

Do Not Use

Bushnell
A. E. Last Name Only

ACCOUNT EXECUTIVES' TIME LOG

WEEK ENDING 06 (Month) 27 (Day) 69 (Year)

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total	Accounting Use Only
	American		1970 Program	3	1	2	1	1	13	
	Eastern		1970 Program	2		4	1	2	09	

E 446
Natelli's Exhibit J

NATIONAL STUDENT MARKETING CORPORATION

Do Not Use: [ ][ ][ ][ ]

BUSINELL
A. E. Last Name Only

ACCOUNT EXECUTIVES' TIME LOG

WEEK ENDING Month [0][7] Day [0][4] Year [6][9]

2259

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total	Accounting Use Only
	Eastern Airlines		1970 Program		2	1	6		09	
	American		O.T. Prom	2					02	
	American		Newspaper			1		2	01	

E 447
Natelli's Exhibit J

NATIONAL STUDENT MARKETING CORPORATION

Do Not Use: [ ][ ][ ]

Natelli — A. E. Last Name Only

ACCOUNT EXECUTIVES' TIME LOG

WEEK ENDING: Month 07 / Day 11 / Year 69

0232

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total	Accounting Use Only
	Eastern		1970 Program	2	3		1	4	09	
	Americana		Newspaper			5			05	

E 448

Natelli's Exhibit J

NATIONAL STUDENT MARKETING CORPORATION

Do Not Use

BUSHNELL
A. E. Last Name Only

ACCOUNT EXECUTIVES' TIME LOG

WEEK ENDING 07 (Month) 18 (Day) 69 (Year)

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total	Accounting Use Only
	American		Newspaper				1		01	
	American		1970 Program		2	4	3		09	
	Eastern		1970 Program	2	1	2		4	09	

E 449
Natelli's Exhibit J

NATIONAL STUDENT MARKETING CORPORATION

Do Not Use: [ ][ ][ ][ ]

Powell
A. E. Last Name Only

ACCOUNT EXECUTIVES' TIME LOG

WEEK ENDING Month [3][7] Day [2][5] Year [6][7]

2252

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total	Accounting Use Only
	Eastern Airlines		1970 Program	1	2		2	4	09	
	American Airlines		1970 Program			4		2	06	
			Newspaper			3			03	

E 450
Natelli's Exhibit J

NATIONAL STUDENT MARKETING CORPORATION

Do Not Use

Bennett
A. E. Last Name Only

ACCOUNT EXECUTIVES' TIME LOG

WEEK ENDING 02 (Month) 01 (Day) 67 (Year)

2333

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total	Accounting Use Only
	Eastern Airlines		1970 Program	1	2		3		06	
	" "		Book Covers			2			02	
	American Airlines		City Prom					1	01	
			Newspapers				3		03	

E 451
Natelli's Exhibit J

NATIONAL STUDENT MARKETING CORPORATION

Do Not Use

Bushnell
A. E. Last Name Only

ACCOUNT EXECUTIVES' TIME LOG

WEEK ENDING Month 08 Day 08 Year 69

2654

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total	Accounting Use Only
	Eastern Airlines		Coed Program		2				02	
	" "		1970 Program	1	3		1		05	
	American Airlines		Posters			1			01	
	"		Newspaper				2		02	
	"		City Pair					3	03	

E 452
Natelli's Exhibit J

NATIONAL STUDENT MARKETING CORPORATION

ACCOUNT EXECUTIVES' TIME LOG

Do Not Use: [ ][ ][ ][ ]

Bardwell
A. E. Last Name Only

WEEK ENDING Month [6][P] Day [1][5] Year [6][9]

2235

Accounting Use Only	CLIENT	Do Not Use	PROGRAM TYPE	Hours by Day M	T	W	T	F	Week Total		Accounting Use Only
	Eastern Airlines		1770 Program		3	1	2		0	6	
	" "		Book Covers	2				1	0	3	
	American		Newspaper	1	1	2	1	1	0	6	
	American		City Plan		2				0	2	

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E 454

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9922

SERVING THE YOUTH MARKET

EASTERN AIRLINES

YOUTH MARKETING PLAN 1970

Submitted

May 9, 1969

National Student Marketing Corporation

345 Park Avenue • New York, New York 10022 • 753-7700

This recommends a comprehensive program to more profitably position Eastern Airlines in the youth market.

Background

I. The Youth Market

Nearly one-half of the U. S. population is now included in what is generally termed the "youth market". . .the under 24's. Not only is this market large but it is continuing to grow at a rapid pace.

Ages	1965	1970	1975
0 - 13	56,092,000	58,481,000	69,419,000
14 - 19	20,545,000	22,890,000	24,625,000
20 - 24	13,543,000	17,094,000	18,979,000

Out of this immense number of young people emerges the student due to his affluence and influence upon contemporary ethics, politics, culture, and business. The student population, this school year, will be approximately 22.5 million as follows:

	1969/70
High School	15.0 MM
College	7.5 MM

These students will spedn an estimated $35 billion on non-educational items (high school students - $15 MMM; college students - $20 MMM).

In addition to their numbers, affluence and influence, these young people will shortly be the mass consuming adult market of tomorrow.

Now is when they are developing the loyalties to various products and services that they will carry forward into adult life.

II. The Airline Industry

Although it may not have been realized at the time, the first real recognition of the importance of the youth market to the airline industry came on January 28, 1965 when the C.A.B. authorized the sale of unsold seats to youth on a standby basis at less than the normal full fare. The objective of this mov was to increase revenues, short term, by cutting down on the number of available, but unsold seats.

This plan, which applied to 12 through 22 year olds, actually provided the airlines with an opportunity to more than cut down on the number of unsold seats. That opportunity was to dramatically expand the air travel market by getting a greater percentage of the U. S. population to fly. Today's youth fare passengers, although an important source of immediate revenues, are the full fare business and pleasure airline users of the not too distant future.

The actual exploitation of the youth fare plan varies greatly from one air carrier to another. Initially, all but Delta used the one-half fare, standby plan. However, Braniff, Continental, National and Northeast have subsequently switched to the two-thirds reserved seat plan.

At the end of April, 1968 Eastern Airlines went to the reserved seat two-thirds fare plan presumably for the purpose of increasing youth fare revenues. Since that time the relationships of youth fare revenues to youth fare passengers and miles flown has consistently improved.

Objective

1. To significantly increase revenues generated by youth fare boardings via:
   (a) increasing the number of boardings and the average trip length.
   (b) increasing school commutation boardings, especially in the Fall.
2. To strengthen Eastern Airlines franchise in the youth market in order to insure a high degree of loyalty as this market matures into the adult, full fare market.

Strategy

To accomplish the above general objective, implement a comprehensive, broadscale marketing program to the youth market. This plan is developed around two specific areas in which Eastern can become preemptive; a youth fare reserved seat vs. standby and the warm weather "fun" destinations served by Eastern.

1. Develop a special college "fun in the sun" travel club for the purpose of flying students to the Miami - Fort Lauderdale area during the Easter break.

2. Aggressively promote school commutation on Eastern Airlines with major emphasis on improved penetration of Eastern's youth fare I.D. card.

3. Capitalize upon the student propensity to use air travel for leisure time activities via strong destination promotion.

Recommended Plan

The proposed marketing plan will be implemented in two overlapping phases. The first phase consists of an aggressive promotion of a college student Easter Vacation Club. The second phase consists of the promotion of Eastern Airlines for school commutation by students plus vacation travel for faculty members.

Phase I

The objective of the Easter Vacation Travel Club is to generate $1,000,000 of found business by transporting 10,000 college students to the Miami - Fort Lauderdale area. Assuming successful execution of this program in 1970, it would be continued and refined in succeeding years.

The basis for the boarding estimate is as follows:

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1. There are 25 cities from which Eastern flies to the target destination.

2. There are 300 colleges in which an effective Easter Vacation Travel Club can be established.

3. We feel that a minimum of 30 students per school will become members and will take the trip.

4. We expect 10% - 25% more members from the total program than the basic minimum.

NET:

300 Clubs	x	30 members	=	9,000 Members
plus 10% - 25% more			=	9,900 to 11,250 Members
x average $95 fare each			=	$950,500 - $1,068,750

5. The average fare costs, using the 2/3 reserved fare plan, is estimated at $95.

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TRAVEL CLUB PLAN

Timing	Activity	Description	Cost
January	Posters	Promoting Travel Club 15,000 Posters	$17,500
	Desk Pad	Travel Club reminder ad w/application - 500 M circulation	$27,000
February	Handouts	Promoting Travel Club w/application - 15 MM circulation	$47,000
	Posters	Promoting Travel Club 15,000 Posters	$17,500
March	Posters	Promoting Travel Club 15,000 Posters	$17,500
April	Travel Club departs for destination		
Total media cost			$125,500

TRAVEL CLUB COSTS

1970 TRIP

Media	$125,500
Film Eastern Footage + Student film Produced by [illegible] for $25,000 [illegible]	60,000
Administration Costs	
Free trip for Reps*	30,000
Administration of Club Memberships, ticket arrangements, etc.	60,000
TOTAL	$275,500

2282

* The campus rep will receive a free trip (value $100) for a minimum group of 30 students.. For each person over the minimum he will receive $2.50.

ONLY COPY AVAILABLE

Members of the group will be booked with Eastern on a bi-weekly basis by NSM's District Managers, who supervise the campus reps.

During the January through March period NSM Campus Reps will be promoting the club through the showing of a special destination sell movie which will be produced by youth for youth. The film will look at the Miami - Fort Lauderdale area through the eyes of a college student and will cover the areas of interest to his age group.

Additionally, all application blanks distributed via the above program will go directly to the Campus Rep. He will process them, set up meetings for the Club promoting the destination, plus he will attempt to generate additional memberships himself basically through use of the film.

Why will students want to join? Because the Club offers:

1. a trip to a fun place for college students.
2. the trip will be with his/her friends.
3. the price is very attractive - 2/3 the regular youth fare to the destination.
4. one out of every 30 members will go "free" as the result of a drawing to be held before the planes depart.

5. it's something "special" from an airline that cares about them.

The basic requirement for membership will be a 2/3 fare I. D. card plus $2.00. If they have the I. D. card it is $2.00 only.

The Club will be run in the same manner as any other extracurricular club with the only difference being their objective; an Easter Vacation trip. Officers will be elected and bi-weekly meetings held. This will increase student involvement and will make the club "theirs". A bi-weekly payment plan will be set up and encouraged. All participants in this plan will be eligible for the free trip drawing which will be paid for out of the interest of the clubs payment plan which will be set up with a local bank.

Phase II

This phase will accomplish the following objectives:

1. Provide increased awareness of Eastern as a vacation/business/commutation airlines among:
   (a) faculty; who have a greater propensity to travel than the population average.
   (b) seniors/graduate students; who are making the transition from youth fare to full fare passengers.
   (c) youth fare prospects; who do not have a youth fare I. D. card or who have one but do not use it as often as they could/should.

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ADDITIONAL ACTIVITIES

Timing	Activity	Description	Cost
February	Faculty Mailing	Promoting Easter Vacation travel w/credit card application - 60 M names	$26,000
April	Posters	Promoting Summer Vacation Travel - 15,000 Posters	$17,500
May	Senior/Grad Student Mailing	Promoting job interviewing trips via Eastern plus credit card application 400 M names	$70,400
	Posters	Promoting Back-to-Home & Summer Vacation Travel 15,000 Posters	$17,500
	City Pair Mailing	Promoting return home/ vacation via Eastern w/I.D. card application 150 M names	$36,000
	Handout	Promoting Back-to-Home Travel 1.5 MM	$47,500
August	City Pair	Promoting return to school via Eastern w/I.D. card application 150 M names	$36,000
	Colad High School Insert	Promoting Eastern Airlines I. D. Card to High School Market 1 MM	$25,500
September	Desk Pad	Eastern I. D. ad w/ local agents' phone number 500 M circulation	$27,000
	Phone Directory	P4C backcover ad plus agents' phone listing - 140 colleges	$18,000
	Occupant Mailing	Promoting I. D. card w/ application - 950 M circulation	$21,400

2275

Timing	Activity	Description	Cost
September (cont.)	Poster	Promoting Week-end Travel 15,000 Posters	$17,500
	Mini-Pac Handout	Promoting the Youth Fare I. D. Card 1.5 MM	$33,750
October	Handout	Join the Eastern Airlines Travel Program 1.5 MM	$47,500
	Poster	Promote Thanksgiving Travel 15,000 Posters	$17,500
November	Poster	Promote Midterm Travel 15,000 Posters	$17,500
	Handout	Promote Christmas & Mid-term Travel 1.5 MM	$47,500
December	City Pair	Promoting Back-to-Home Travel 150,000	$36,000

Next Steps

Assuming agreement to the Travel Club program, we will undertake immediately to produce the movie which will be the basic selling tool for the campus rep.

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CALENDAR OUTLINE
EASTERN AIRLINES
1970 PROGRAM

Timing	Program	Description	
January	Poster	Promoting Mid-Term Easter Vacation Travel 15,000 Posters	$17,500
	Calendar Desk Pad	Promoting - Easter Vacation Travel 500,000 Pads	$27,000
February	Posters	Promoting Easter Vacation Travel. 15,000 Posters	$17,500
	Handouts	Promoting Florida Vacation in Florida 1,500,000	$47,500
	Faculty Mailing	Promoting Easter Vacation Travel W/Credit Card Application - Mailed To 60,000 Department Heads with 30 Applications In Each Mailing	$26,000
March	Posters	Promoting Easter Vacation Travel 15,000 Posters	$17,500
April	Posters	Promoting Summer Vacation Travel. 15,000 Posters	$17,500
	Senior/Graduate Student Mailing	Promoting Job Interviewing Trips & Summer Vacations Via Eastern W/Credit Card Application 400,000	$70,400
May	Posters	Promoting Back-To-Home & Summer Vacation Travel 15,000 Posters	$17,500
	Handout	Promoting Back-To-Home Travel 1,500,000	$47,500
	City Pair Mailing	Promoting Back-To-Home Travel 150,000	$36,000

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Natelli's Exhibit J

Timing	Program	Description	
August	City Pair Mailing	Promoting Back-To-School Travel 150,000	$36,000
	Colad High School Insert	Promoting Eastern Airlines I. D. Card To High School Market 1,000,000	$22,500
September	Occupant Mailing	Promoting Eastern Airlines I. D. Card To College Market 950,000	$21,400
	College Telephone Directories	Promoting Two-Thirds Fare & Travel Telephone Listing	$18,000
	Poster	Promoting Week-End Travel 15,000 Posters	$17,500
	Calendar Desk Pad	Promoting Week-End Thanksgiving & Christmas Travel 500,000 Circulation	$27,000
	Mini-Pac Handout	Promoting the Youth Fare I. D. Card 1,500,000	$33,750
October	Handout	Join The Eastern Airlines Travel Program 1,500,000	$47,500
	Poster	Promoting Thanksgiving Travel 15,000 Posters	$17,500
November	Poster	Promoting Midterm Travel 15,000 Posters	$17,500
	Handout	Promoting Christmas & Midterm Travel 1,500,000	$47,500

Natelli's Exhibit J

Timing	Program	Description	
December	City Pair Mailing	Promoting Back-To-Home Travel 150,000	$36,000
Special Project -	Production of 15 minute films plus 200 prints - Movie will feature the excitment of Easter & Summer Vacation. Travel with Eastern		$60,000
	Movie Showing, Direct Solicitation and Booking of reservations for Easter Vacation in Florida 300 Campuses - Campus Representative Payment		$90,000
			$150.000
		TOTAL	$834,050

Prepared By
Approved By

Eastern Airlines
Year-to-Date Data as % of Domestic System

End - Year	Miles	% System	Passengers	% System	Revenue	% System
January 1967						
February						
March						
April						
May						
June						
July						
August						
September						
October						
November						
December						
Total 1967						
January 1968						
February						
March						
April						
May						

2330

Natelli's Exhibit J

E 468

E 469

Natelli's Exhibit J

| | | |

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NATELLI'S EXHIBIT K

COMFORT LETTER - NOVEMBER 3, 1969 OF PMM

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
345 PARK AVENUE
NEW YORK, NEW YORK 10022

November 3, 1969

PH-Sec

PERSONAL

To Each Member of the Boards of Directors of
National Student Marketing Corporation and
Interstate National Corporation

Gentlemen:

Enclosed is a copy of our signed October 30, 1969 comfort letter to National Student Marketing Corporation and Interstate National Corporation and also a copy of our October 31, 1969 letter of transmittal to Mr. Jay Eplee.

We were informed that the closing took place late last Friday afternoon. We were also informed that the recent S-14 registration statement had already been used in connection with what was described as essentially a private placement of securities by five individuals with two institutional investors and that the registration statement is not to be used for any other purpose.

As indicated in the last paragraph of the transmittal letter, we have consulted with our legal counsel and have been advised that we should send each of you copies of the enclosed letters and take no further action regarding this matter unless subsequent developments dictate otherwise.

Very truly yours,

PEAT, MARWICK, MITCHELL & CO.

Thomas L. Holton

Thomas L. Holton, Partner

TLH:JFS
Encs.

CC :White & Case - Mr. Jay Eplee
14 Wall Street
New York, N. Y., 10005

Lord Bissell & Brook - Mr. Louis F. Schauer
135 South LaSalle Street
Chicago, Illinois, 60603

E 471

Natelli's Exhibit K

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

345 PARK AVENUE

NEW YORK, NEW YORK 10022

October 31, 1969

Mr. Jay Eplee
White & Case
14 Wall Street
New York, New York 10005

Dear Mr. Eplee:

Enclosed are three copies of our Comfort Letter to National Student Marketing Corporation and Interstate National Corporation. This letter is the same as the draft letter which the parties reviewed about two o'clock this afternoon, except that we inserted thereafter the fourth from last paragraph, which I understand was read to you on the telephone from our Washington office, and the third from last paragraph, which I read to you on the telephone at about four-thirty.

As I indicated to you on the telephone, our legal counsel has not yet advised us as to precisely what other steps, if any, we should take next Monday morning.

Very truly yours,

PEAT, MARWICK, MITCHELL & CO.

Thomas L. Holton

Thomas L. Holton, Partner

TLH:JE

cc: National Student Marketing Corporation
345 Park Avenue
New York, New York 10022

Interstate National Corporation
Interstate National Insurance Group
175 West Jackson Boulevard
Chicago, Illinois 60604

Mr. A. M. Natelli, PMM&Co., Washington, D. C.

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Natelli's Exhibit K

PEAT, MARWICK, MITCHELL & Co.
CERTIFIED PUBLIC ACCOUNTANTS
345 PARK AVENUE
NEW YORK, NEW YORK 10022

October 30, 1969

National Student Marketing Corporation
345 Park Avenue
New York, New York 10022

Interstate National Corporation
Interstate National Insurance Group
175 West Jackson Boulevard
Chicago, Illinois 60604

Gentlemen:

Under the date of November 14, 1968 we reported on certain financial statements and related schedules of National Student Marketing Corporation.

We have not made an examination of the consolidated financial statements nor audited the records or transactions of National Student Marketing Corporation and its consolidated subsidiaries for the nine months ended May 31, 1969. Accordingly, we express no opinion on such consolidated financial st nts.

At your request, we have made a review to October 28, 1969 which does not constitute an examination in accordance with generally accepted auditing standards of National Student Marketing Corporation's consolidated financial statements as of and for the nine months ended May 31, 1969. Accordingly, we have:

(a) Read the aforementioned unaudited consolidated financial statements for the nine months period ended May 31, 1969 and the unaudited consolidated financial statements for the year ended August 31, 1969, which are the latest available interim and annual unaudited financial statements;

(b) Read the minutes of the meetings of the stockholders, Board of Directors, and Executive Committee held during the period from August 31, 1968 to October 28, 1969 included in the minute books at October 28, 1969, officials of the Company having advised us that the minutes of all meetings through that date were set forth therein; and

(c) Had discussions with officials of the Company responsible for financial and accounting matters as to transactions and events subsequent to August 31, 1968, and as to whether adjustments had been made to effect a reasonable closing at May 31, 1969.

Our work did not extend to the period from October 28, 1969 to the date of this letter. It should be understood that this limited review would not necessarily reveal adverse changes in the financial position or results of operations of the Companies or inconsistencies in the application of generally accepted accounting principles. Subject to this explanation and based upon the aforementioned limited review, nothing has come to our attention which caused us to believe that:

1. The National Student Marketing Corporation's unaudited consolidated financial statements as of and for the nine months ended May 31, 1969:

   a. Were not prepared in accordance with accounting principles and practices consistent in all material respects with those followed in the preparation of the audited consolidated financial statements which are covered by our report dated November 14, 1968;

   b. Would require any material adjustments for a fair and reasonable presentation of the information shown except with respect to consolidated financial statements of National Student Marketing Corporation and consolidated subsidiaries as they existed at May 31, 1969 and for the nine months then ended. Our examination in connection with the year ended August 31, 1969 which is still in process, disclosed the following significant adjustments which in our opinion should be reflected retroactive to May 31, 1969:

      1. In adjusting the amortization of deferred costs at August 31, 1969, to eliminate therefrom all costs for programs substantially completed or which commenced 12 months or more prior, an adjustment of $500,000 was required. Upon analysis of the retroactive effect of this adjustment, it appears that the entire amount could be determined applicable to the period prior to May 31, 1969.

2. In August 1969 management wrote off receivables in amounts of $200,000. It appears that the uncollectibility of these receivables could have been determined at May 31, 1969 and such charge off should have been reflected as of that date.

3. Acquisition costs in the amount of $84,000 for proposed acquisitions which the Company decided not to pursue were transferred from additional paid-in capital to general and administrative expenses. In our opinion, these should have been so transferred as of May 31, 1969.

2. During the period from May 31, 1969 to October 28, 1969, there has not been any material adverse change in the consolidated financial position of National Student Marketing Corporation and its consolidated subsidiaries, or any material adverse change in results of operations of National Student Marketing Corporation and its consolidated subsidiaries as compared with the nine month period ended May 31, 1969 after giving retroactive effect at May 31, 1969 of the adjustments disclosed above.

Your attention is called, however, to the fact that if the aforementioned adjustments had been made at May 31, 1969 the unaudited consolidated statement of earnings of National Student Marketing Corporation would have shown a net loss of approximately $80,000. It is presently estimated that the consolidated operations of the company as it existed at May 31, 1969 will be approximately a break-even as to net earnings for the year ended August 31, 1969.

In view of the above mentioned facts, we believe the companies should consider submitting corrected interim unaudited financial information to the shareholders prior to proceeding with the closing.

The terms "financial position" and "results of operations" are used herein in their conventional accounting sense; accordingly, they relate to the consolidated financial statements of the business as a whole and have the same meaning when used in this letter as they have when used in our report.

It is understood that this letter is for the information of Interstate National Corporation and is not to be quoted, or referred to in whole or in part, in any literature used in connection with the expense of securities except for any reference to it in an agreement and plan of merger or in a list of closing documents.

Very truly yours,

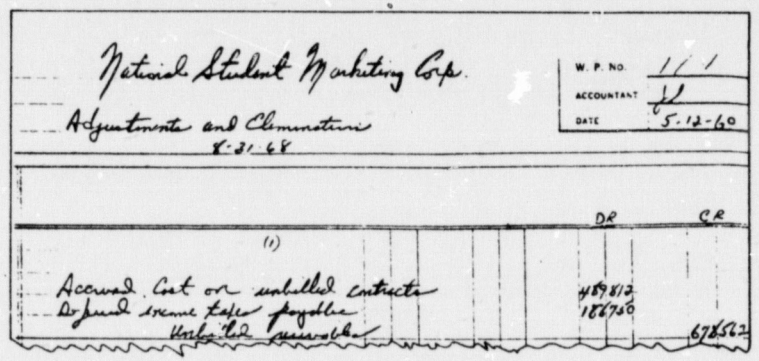
Peat, Marwick, Mitchell & Co.

E 475

NATELLI'S EXHIBIT M

CHART

	DEBIT	CREDIT
(1)		
ACCRUED COST ON UNBILLED CONTRACTS	$489,812	
RETAINED EARNINGS	188,750	
UNBILLED RECEIVABLES		678,562
(2)		
DEFERRED INCOME TAXES PAYABLE	188,750	
RETAINED EARNINGS		188,750


National Student Marketing Corp.

W. P. NO. 11 1

ACCOUNTANT

DATE 5-12-60

Adjustments and Eliminations

8-31-68

DR CR

(1)

Accrued Cost on unbilled contracts 489812

Deferred income taxes payable 188750

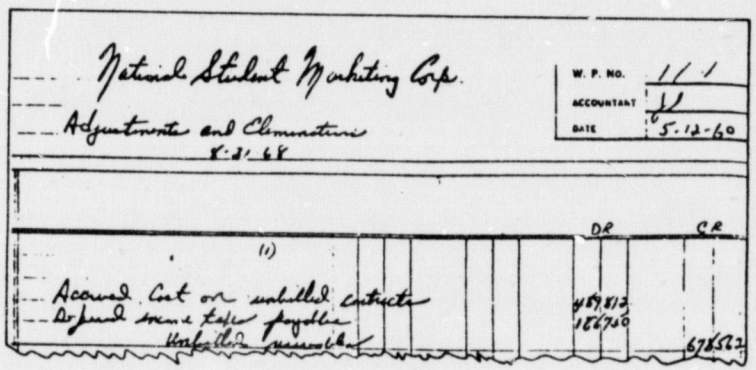
Unbilled receivables 678562

(1)

RETAINED EARNINGS 188,750

(2)

RETAINED EARNINGS 188,750

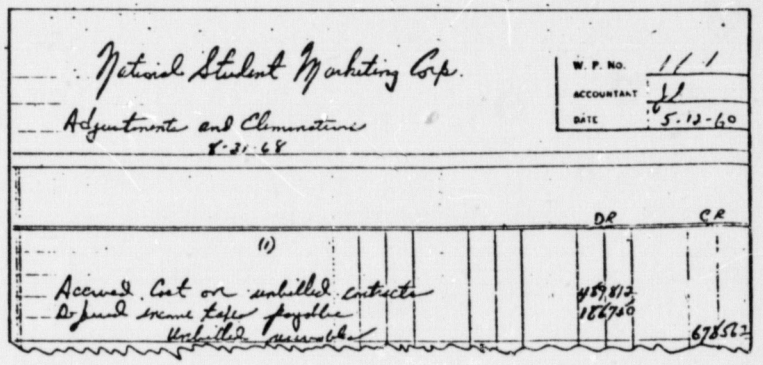

National Student Marketing Corp.
Adjustments and Eliminations
8-31-68
W. P. NO. 11
ACCOUNTANT LL
DATE 5-12-60
DR CR
(1)
Accrued Cost on unbilled contracts 67,813
Deferred income taxes payable 120,750
Unappropriated surplus 67,813
188,750

E 476
Natelli's Exhibit M

E 417

Natelli's Exhibit M

	DEBIT	CREDIT
ACCRUED COST ON UNBILLED CONTRACTS	$489,812	
UNBILLED RECEIVABLES		678,562
DEFERRED INCOME TAXES PAYABLE		


National Student Marketing Corp.
Adjustments and Eliminations
8-31-68
W. P. NO. 11 1
ACCOUNTANT JJ
DATE 5-12-70
DR CR
(1)
Accrued Cost on unbilled contracts 489,812
Deferred income taxes payable 188,750
Unbilled receivables 678,562

E 478

NATELLI'S EXHIBIT N

NSMC WORK PAPERS FOR 8/31/69 (PP. 8671-8674)

Bill

Attached is Program for contacts at NSMC. Please get into this as first order of business. Satisfy yourself that procedures are adequate.

345 Hudson St., New York, N. Y. 10014 Tel: (212) 864-2900

E 479

Natelli's Exhibit N

Internal Students Marketing Corp. PERIOD ENDED 8/31/64

ITEM NO.	AUDIT OPERATION	DONE BY	PERIOD OR EXTENT COVERED & REMARKS
1	The following information should be scheduled on all contracts completed during the year, and all contracts in process at the end of the year:		
	a) Contracts completed		
	1. Contract number, customer and types of program.		
	2. Billings		
	Prior year		
	Current year		
	Total		
	3. Costs		
	Prior year		
	Current year		
	Total		
	4. Profit recognized		
	Prior year		
	Current year		
	Total		
	b) Contracts in process		
	5. Percentage of completion		
	6. Excess of billings over costs and profit recognized		
	7. Excess of costs and profit recognized over billings.		
	8. Accrued costs on contracts in process		
2.	Reconcile totals to general ledger controls.		
3.	Check contract earnings to original contract estimates.		
4.	Compare contract costs to date and accrued costs with estimates and investigate material differences.		
5.	Vouch costs of contracts (extent to be determined) by examination of paid vouchers.		
6.	Request confirmation of contract amounts and progress dates from customers or subcontractors		3672
7.	Compute gross profit percentages on completed contracts and with the estimated gross profit on uncompleted contracts and account for any major differences.		

Prepared by [illegible] Date 3-6

E 480

Natelli's Exhibit N

COMPANY National Student Marketing Corp PERIOD ENDED 9/31/69

ITEM NO.	AUDIT OPERATION	DONE BY	PERIOD OR COVERED
1.	The falling information should be scheduled on all PI programs.		
	a) Deferred costs		
	1. Program		
	2. Costs		
	Prior year		
	current year (by months)		
	Total		
	3. Write off		
	Prior year		
	Current year (by months)		
	Total		
	4. Balance		
	b) Sales		
	1. Program		
	2. Sales		
	Prior year		
	Current year (by months)		
	Total		
2.	Reconcile totals to general ledger controls.		
3.	Vouch costs of programs (extent to be determined) by examination of paid vouchers.		
4.	Consider writing off unamortized portion of costs on programs which have not materialized and discuss with responsible official.		
5.	Test check computation of amounts written off during period.		
	Continued from preceding Page		
8.	Review client's procedures for accounting for expenditures and determine the manner in which the c/o capitalized and amortized items of deferred charges have been used in computing profit reported on contracts.		
9.	Review items deferred by account client's on contracts in process with agreements. Get representations from account of client's of items to be expended subsequent to 9/31/69. Compare this with this schedule used 9/31/69 to total time to be expended and compute c/o complete basis used by client to record earned gross profit.		

E 481

Natelli's Exhibit N

10. [illegible] NSMC [illegible].

E 482

NATELLI'S EXHIBIT O

CAROL RAIMONDO REVIEW MEMO OF TAXES DATED 5/6/69

REVIEW MEMORANDUM

NSMC
(TAXPAYER)

RETURN: 1120 TAXABLE YEAR: 8/31/68

ITEM	EXPLANATION
(10) Return must be counted and computations checked	DONE. ☒ HO
(11) Name – ID # on each page	DONE ☒ HO
(12) Attach schedule to explain question I (1) on page 3, 1120	SEE SCH #7 (Stmt spec)
(13) Why answer QM differently from last yrs. Bus income doesn't appear much worse.	CHANGED ☒ HO
(14) Answer QN 1561 [yes] 1562 [NO] parent subsidiary	DONE ☒ HO
(15) Answer QO	DONE ☒ HO
(16) Has client charged off any bad debts? Can they still elect the reserve method?	See above method & date of last Dun & Bradstreet Corporate Record. Per sch 7 - 6, no bad debts charged off per books. Can still elect reserve method.
(17) Income should equal T-1-FR Income 1120 (Schedule sheet)	Due to $9.45 investigation. Tied in @ 5/2/69 ☒ HO.
(18) Complete expense account work for Carlo Raimondo	DONE, Estimated @ $1,470.- He bears all costs himself with exception of air travel

REVIEWER: [illegible] DATE: 5/6/69

E 483

Natelli's Exhibit O

REVIEW MEMORANDUM

NSMC
(TAXPAYER)

RETURN: SAME TAXABLE YEAR: 8/31/68

ITEM	EXPLANATION
(1) Journal Entry 52 156,769 is shown as deferred A-V Where is the 34,000 Current portion posted on the T/B.	"Provision" wording of JE 52 = Expense. See posting of $34,000 credit to Federal Income Tax Expense Current on TB A-3
(2) NSMC has various branch offices that we discussed during the need to file in other state. Is PMM to handle any necessary returns (Cont. on next sh)	
(3) Does the trademark have an estimated useful life so that amortization can be taken (Generally IRS position is that consideration paid for trademarks is not amortizable (CCH ¶ 1017.287)	
(4) Complete docket - how many copies does client want? (We will file copies to be sent on time)	

REVIEWER: CJ DATE: 5/6/69

E 484

Natelli's Exhibit O

REVIEW MEMORANDUM

NSMC
(TAXPAYER)

RETURN: 1120 TAXABLE YEAR: 61 62

ITEM	EXPLANATION
(1) Change T-3:1 to be into T-2 and see map for plan	DONE 2-10
(2) Schedule 5 - Gantry 8/31/67 computation forms	DONE 2-10
W has one asset taken in the can that was traded in in 1968. If so should one asset be considered by the straightline amount	DONE 2-10 (Cost 1500 4yr life $500 x 7% = $35.00 taken out See Sched I-2)
(3) Note that we have possible exposure to the IRS argument that we have taxable income in contract in progress, but no offsetting tax deduction as estimated costs are not deductible	[illegible]
(4) Note possible deferred tax liability problem. If 44 of Opinion 11 would seem to indicate that [illegible] tax was not necessary	[illegible]

REVIEWER: G DATE: 5/6/67

E 485

Natelli's Exhibit O

ONLY COPY AVAILABLE

REVIEW MEMORANDUM

NSMS

RETURN: 1120 TAXABLE YEAR: 8/31/62

ITEM	EXPLANATION
(1) Set up #4 schedule and [illegible] Commissioner on the carry back and carry forward deductions [illegible] WIP	DONE 2ND.
(2) X-3-9 went to the $25,630 [illegible] Natelli's salary cred. if he deducted the WIP in the Federal return - Stock Options	Only Two stock options were filed. U down-set mK + U WIP's, $25,630. followed thru unless we put WIP X-3-9 but it was adjusted out in Feb 63 by Arthur Anderson. We should not [illegible] 8/31/62 Tax. st. + WIP's.
(3) Expense stock $5,277 Other Deductions - (4) Short 399,030 Please [illegible] return	DONE 2ND
(5) 11-4-1 Should WIP's show 20% Inv Cr + Int Capitalization of NCST [illegible] 1967 [illegible], NEST stock [illegible] NCSTC [illegible]	Show + Circle Qtrly 1- 1 Attached pg 2.
111-1 170,650 Tax Ty [illegible] [illegible]	DONE 2ND

REVIEWER _____ DATE: 3/1/64

E 486

NATELLI'S EXHIBIT P

IMPORTANT

I attach to the top of this form a letter stating

NAME AND ADDRESS OF TAXPAYER, IF DIFFERENT THAN SHOWN BELOW (Type or Print)

National Student Marketing Corporation
1133 Connecticut Avenue N.W.
Washington, DC 20036

SOCIAL SECURITY OR IDENTIFICATION NO. OR EMPLOYER IDENTIFICATION NO.

TYPE OF RETURN

- ☐ U.S. ESTATE TAX RETURN, FORM 706
- ☐ U.S. GIFT TAX RETURN, FORM 709
- ☒ ADDITIONAL EXTENSION, FORM 1120

NAME AND ADDRESS TO WHICH APPLICANT WISHES THIS FORM RETURNED (Type or Print)

TO Peat Marwick Mitchell & Co
1200 Connecticut Avenue, N.W.
Washington, DC 20036

TAXABLE PERIOD

- ☐ CALENDAR YEAR _____
- ☒ FISCAL YEAR ENDING 5/31/69

DATE EXTENSION REQUESTED TO

May 15, 1969

STATE REASON WHY EXTENSION IS NECESSARY

See Schedule 1

IT IS UNDERSTOOD THAT IF NO RETURN IS FILED THE GRANTING OF THIS EXTENSION WILL NOT IN ANY WAY RELIEVE THE TAXPAYER OF CRIMINAL PENALTIES PROVIDED BY LAW FOR FAILURE TO FILE A TAX RETURN

SIGNATURE OF TAXPAYER OR AUTHORIZED REPRESENTATIVE (See Reverse)

Orin S. Kramer

DATE

2/11/69

DO NOT WRITE IN SPACE BELOW

ACTION TAKEN

- ☒ EXTENSION GRANTED TO 6 months 8/15/69
- ☐ REJECTED (See reasons checked below)

SIGNATURE

Illegible

DATE

FEB 13 1969

REASONS FOR REJECTION

1. ☐ Request for the extension is not signed by the taxpayer or his duly authorized agent.
2. ☐ The request was not in this office or mailed on or before the date prescribed by law for filing the return.
3. ☐ No acceptable reason was given for needing the extension of time.
4. ☐ A general statement of hardship or inability to pay is not grounds for granting of a formal extension of time to file. Your return should be filed at the earliest possible date with a copy of this form attached thereto.
5. ☐ Separate requests are required for each type of tax involved.
6. ☐ Other:

* IF AN EXTENSION IS GRANTED A COPY OF THIS FORM MUST BE ATTACHED TO THE FACE OF YOUR RETURN WHEN IT IS FILED.

U.S. TREASURY DEPARTMENT—INTERNAL REVENUE SERVICE

FORM 7004 (REV. 2-67)

E 487

Natelli's Exhibit P

NAME: [illegible]

ADDRESS: [illegible]

YEAR ENDED 7/31/69

[illegible]

E 488

Natelli's Exhibit P

FORM 7004
Rev. Nov. 1967
U.S. Treasury Department
Internal Revenue Service

APPLICATION BY A CORPORATION FOR AUTOMATIC EXTENSION OF TIME TO FILE U.S. INCOME TAX RETURN

(Under section 6081(b) of the Internal Revenue Code) Schedule 8

NOTE: Prepare this form in duplicate. File the original with the Internal Revenue office with which you are required to file your income tax return. Attach the duplicate copy to your income tax return.

For taxable year beginning SEPTEMBER 1, 1967, and ending AUGUST 31, 1968.

Application is made for an automatic extension of 3 months for filing the completed return of the corporation named below.

Name of corporation	Employer Identification Number
NATIONAL STUDENT MARKETING SERVICE, INC.	52-0845263
Number and street	**Check type of return to be filed:**
1140 CONNECTICUT AVE NW.	☒ Form 1120 ☐ Form 1120-F ☐ Form 1120-L ☐ Form 1120-M ☐ Form 1120-S
City or town, State, and ZIP code	
WASHINGTON DC 20036	

1. Does this application also cover subsidiaries to be included in a consolidated return? Yes ☐ No ☒
If "Yes," complete the following:

Name and Address of Each Member of the Affiliated Group	Employer Identification No.

2. An amount not less than 50 percent of the tax tentatively determined to be due (line 2(c)) must be deposited on or before the original due date of the corporation's income tax return. See instructions for depositary method of payment.

(a) Tentative amount of tax for the taxable year after taking into account any— Foreign tax credit Investment credit Personal holding company tax Tax from recomputing prior year investment credit Credit from regulated investment companies Credit for Federal tax on nonhighway gasoline and lubricating oil	NONE
(b) Less: Payments on declaration of estimated tax (include amount of preceding year's overpayment allowed as a credit)	NONE
(c) Balance due	NONE
(d) Amount required to be paid—not less than 50 percent of line 2(c). See instructions for depositary method of payment	NONE

SIGNATURE (See Instruction 8)

Under penalties of perjury, I declare that I have been authorized by the above-named corporation to make this application, that to the best of my knowledge and belief the statements made herein are true and correct, and that I am: ☐ an officer of the corporation; ☐ an agent enrolled to practice before the Internal Revenue Service; ☐ an attorney in good standing of the bar of the highest court of ..... (Specify jurisdiction); or ☒ a certified public accountant duly qualified to practice in DISTRICT OF COLUMBIA (Specify jurisdiction)

Ernst & Ernst — 11-8-67
(Signature) (Date)

A Copy of This Application Must Be Filed With the Corporation's Completed Return

Form 7004 (Rev. 11-67)

E 489

Natelli's Exhibit P

Form 7004
(Rev. Oct. 1968)
U.S. Treasury Department
Internal Revenue Service

Application for Automatic Extension of Time to File Corporation Income Tax Return

(Under section 6081(b) of the Internal Revenue Code)

NOTE: Prepare this form in duplicate. File the original with the Internal Revenue office where you are required to file your income tax return. Attach the duplicate to your income tax return.

Name of corporation: National Student Marketing Corp

Employer Identification Number: 52-0845663

Number and street: 1100 Connecticut Ave N.W.

City or town, State, and ZIP code: Washington D.C.

Check type of return to be filed:
- [X] Form 1120
- [ ] Form 1120-F
- [ ] Form 1120-L
- [ ] Form 1120-M
- [ ] Form 1120-S

An automatic 3-month extension of time until February, 1970, is hereby requested in which to file the income tax return of the corporation named above for the taxable year ending August 31, 1969.

1. Does this application also cover subsidiaries to be included in a consolidated return? Yes [X] No [ ]
If "Yes," complete the following:

Name and Address of Each Member of the Affiliated Group	Employer Identification No.
See Attached Schedule 1	

2. An amount not less than 50 percent of the tax tentatively determined to be due (line 2(c)) must be deposited on or before the original due date of the corporation's income tax return. See instructions for depositary method of payment.

(a) Tentative amount of tax for the taxable year after taking into account any— Tax; Foreign tax credit; Investment credit; Personal holding company tax; Tax from recomputing a prior year investment credit; Credit from regulated investment companies; Credit for Federal tax on nonhighway gasoline and lubricating oil	NONE
(b) Less: Estimated tax payments (include amount of preceding years' overpayment allowed as a credit—do not include any "quick refund" of overpayment of estimated tax applied for on Form 4466)	NONE
(c) Balance due	NONE
(d) Amount required to be deposited—not less than 50 percent of line 2(c). See instructions for depositary method of payment	

SIGNATURE (See Instruction 8)

Under penalties of perjury, I declare that I have been authorized by the above-named corporation to make this application, that to the best of my knowledge and belief the statements made herein are true and correct, and that I am: [ ] an officer of the corporation; [ ] an agent enrolled to practice before the Internal Revenue Service; [ ] an attorney in good standing of the bar of the highest court of .....; or [ ] a certified public accountant duly qualified to practice in
(Specify jurisdiction)

.....
(Specify jurisdiction)

.....
(Signature)

.....
(Date)

A Copy of This Application Must Be Attached to the Corporation's Income Tax Return

Form 7004 (Rev. 10-68)

E 490

Natelli's Exhibit P

Instructions

1. Depositary method of payment.—Corporations, both domestic and foreign, must deposit all income tax payments with an authorized commercial bank depositary or Federal Reserve bank. All deposits must be accompanied by a Federal Tax Deposit Form 503.

Please enter the serial number of Form 503 on your remittance. Do not remit directly to Internal Revenue Service.

Timeliness of deposits will be determined by the date the deposit was received by the commercial bank depositary or Federal Reserve bank. However, a deposit received after the due date will be considered timely if the corporation establishes that it was mailed on or before the second day before the prescribed due date.

A supply of Forms 503 will be mailed to domestic corporations on a cyclical basis depending on the taxable year of the corporation. Domestic corporations needing Forms 503 may obtain them only by applying to the Director of a service center (or District Director). Foreign corporations must apply to the Director of International Operations, Internal Revenue Service, Washington, D.C. 20225. The application should include the corporation's name, identification number, address, and the taxable year to which the deposits relate.

Corporations which surrender Treasury bills to Federal Reserve banks in payment of corporation income or estimated income taxes must submit with the securities a Form 503 on which the face amount of the bills has been entered in the space provided for the amount of the deposit. The Federal Reserve bank will acknowledge receipt of the bills and will effect the deposit on the date the taxes become due. Corporations should not submit with their tax returns the receipts for Treasury bills surrendered to Federal Reserve banks.

2. Who may file.—This application is to be used by a corporation to request an automatic 3-month extension of time to file its income tax return.

An extension will be granted upon the timely and proper filing of this form and timely deposit of the required amount in accordance with instructions 1 and 5.

An extension of time to file the corporation's income tax return does not extend the time for payment of the tax.

3. When to file.—This application must be filed on or before the 15th day of the 3d month following the close of the taxable year.

4. How and where to file.—Complete this form in duplicate. File the original with the Internal Revenue office where the corporation will file its income tax return. (See instructions accompanying the corporation's income tax return.) Attach the duplicate to the corporation's income tax return when it is filed.

The corporation's income tax return may be filed at any time prior to the expiration of the 3-month period.

5. Amount of deposit.—The corporation must deposit an amount not less than would be required if it elected to pay its final tax liability in two installments. The installment privilege is limited to the amount shown on line 2(c) of this form. Therefore, any portion of the final tax not shown on line 2(c) will bear interest at the rate of 6 percent per year from the original due date of the corporate return to the date of payment.

6. Consolidated returns.—A parent corporation may request extensions for its subsidiaries where a consolidated return is to be filed. In such cases, the name, address, and employer identification number of each member of the affiliated group for which the extension is desired must be listed in item 1.

7. Termination of extension.—Internal Revenue may terminate the automatic extension at any time by mailing a notice of termination to the corporation or to the person who requested the extension for the corporation. The notice shall be mailed at least 10 days prior to the termination date designated in the notice.

8. Signature.—Form 7004 must be signed by a person authorized by the corporation to do so, and who is either (a) an officer of the corporation, (b) a person currently enrolled to practice before the Internal Revenue Service, or (c) an attorney or certified public accountant qualified to practice before the Internal Revenue Service under Public Law 89–332.

☆☆☆☆ U.S. GOVERNMENT PRINTING OFFICE : 1968—O-293-030

E 491

Natelli's Exhibit P

NAME National Student Marketing Corp. 52-0845863

ADDRESS 1100 Connecticut Ave N.W.
Washington D.C.

Taxable Year Ended 8/31/69

Colad Company Inc 701 Seneca St Buffalo N.Y 14210	16-0720670					
Colad Data Service Inc. 701 Seneca St. Buffalo N.Y 14210	16-6038413					
Colad International Inc. 701 Seneca St Buffalo N.Y 14210	16-0920565					
Computor Inc. 635 Madison Ave New York, N.Y. 10022	13-2612930					
Consultants for Market Isolation 1790 Broadway New York, N.Y. 10019	13-2620708					
Impressions by M 34 W 33rd Street New York New York 10001	13-2621479					
Institutional Directories 602 Avenue L Lubbock Texas 79401	75-1070585					
Lewis Bros. Ceramics Inc 252-B Lake Ave Yonkers, N.Y	13-1825978					

E 492

Natelli's Exhibit P

NAME National Student Marketing Corp. 52-0845863.

ADDRESS 1100 Connecticut Ave N.W.
Washington D.C

Taxable Year Ended 8/31/69

National Employment Serv. Institute 52-0809249 1100 Connecticut Ave Washington D.C 20036				
National Manpower Register 13-2569626 635 Madison Ave New York, New York 10022				
NET Inc Applied for 45 E. Putnam Ave Greenwich Conn. 06030				
NET - Aye France Applied for 45 E Putnam Ave Greenwich Conn. 06030				
NET - Aye Germany Applied for 45 E Putnam Ave Greenwich Conn. 06030				
NET - Aye Great Britain Inc Applied for 45 E. Putnam Ave Greenwich Conn 06630				
NET - Aye Italy Applied for 45 E Putnam Ave Greenwich Conn 06030				
NET - Aye Spain Applied for 45 E Putnam Ave Greenwich Conn 06030				

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Natelli's Exhibit P

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NAME National Student Marketing Corp. 52-0845663

ADDRESS 1100 Connecticut Ave N.W.
Washington D.C.

Taxable Year Ended 8/31/69

NET - Austria 45 E. Putnam Ave Greenwich Conn. 06030	Applied for			
NET - Germany 45 E. Putnam Ave Greenwich Conn. 06030	Applied for			
NET - Greece 45 E Putnam Ave Greenwich Conn 06030	Applied for			
NET - Ireland 45 E Putnam Ave Greenwich Conn 06030	Applied for			
NET - Italy 45 E Putnam Ave Greenwich Conn 06030	Applied for			
NET - Mediterranean 45 E. Putnam Ave Greenwich Conn 06030	Applied for			
NET - Russia 45 E Putnam Ave Greenwich Conn 06030	Applied for			
NET - Scotland 45 E Putnam Ave Greenwich Conn 06030	Applied for			

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Natelli's Exhibit P

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NAME National Student Marketing Corp 52-0845863

ADDRESS 1100 Connecticut Ave N.W.
Washington D.C.

Taxable Year Ended 8/31/69

NET - Spain 45 E Putnam Ave Greenwich Conn 06030	Applied for			
NET - Switzerland 45 E. Putnam Ave Greenwich Conn 06030	Applied for			
NET - Wales 45 E. Putnam Ave Greenwich Conn 06030	Applied for			
New England Subscription Service 132 Adams Street Newton Massachusetts 02158	04-2370313			
Norman Oklahoma Retailers 1100 Connecticut Ave. N.W. Washington D.C.	Applied-for			
Plasticoat Corp 701 Seneca St. Buffalo NY 14210	16-0774892			
Renselear 1100 Connecticut Ave N.W. Washington D.C.	Applied-for			
RJ + M Corp 230 E. 7th St. Mount Vernon N.Y. 10550	Applied-for			

CYPRESS NO. 502

E 495

Natelli's Exhibit P

Page 5 of 5

NAME National Student Marketing Corp 52-0845663

ADDRESS 1100 Connecticut Ave N.W.
Washington D.C.

Taxable Year Ended 8/31/65

Shaffer Enterprises 43-0839920				
114 West Gregory Blvd.				
Kansas City Missouri 64114				
University Marketing				
Whatsnu Sportswear 13-2586541				
34 West 33rd St.				
New York, New York 10001				
National Scholastic List Co. Inc. 11-1592996				
150 Montague St.				
Brooklyn N.Y. 11201				

CYPRESS NO. 502

E 496

Natelli's Exhibit P

FORM 1120 — U.S. CORPORATION INCOME TAX RETURN

For calendar year 1968 or fiscal year beginning September 1, 1968, and ending August 31, 1969

19

B Employer identification number: 52-0843863

C Date incorporated: 1965

D Total assets (see instructions): 8098

E Check if consolidated return (attach Form 851): ☐

F Check if personal holding co. (see sec. 542): ☐

G Check if this is an initial return: ☐

H Check if this is a final return: ☐

52-0843863 1965 DC 52 08
NATIONAL STUDENT MARKETING SERVICES CORPORATION
1100 CONNECTICUT AVE NW
WASHINGTON D C 20036

Number and street: 1025 CONNECTICUT AVE. N.W.

City or town, State and ZIP code: WASHINGTON, D. C. 20036

Business code number: 7310

Enter total assets (from Schedule L, line 15, column (d)) (See instruction G): $ 3,221,412.73

IMPORTANT—All applicable lines and schedules must be filled in. If the lines on the schedules are not sufficient, see instruction M.

GROSS INCOME

1	Gross receipts or gross sales 1,147,420.85 Less: returns and allowances 1,770.37		1,145,650.48
2	Less: Cost of goods sold (Schedule A) and/or operations (attach schedule)		1,145,314.28
3	Gross profit		336.20
4	Dividends (Schedule C)		
5	Interest on obligations of the United States and U.S. instrumentalities		
6	Other interest		3,321.22
7	Gross rents		3,275.00
8	Gross royalties		
9	Net gains (losses)—(separate Schedule D)		
10	Other income (attach schedule)		677.72
11	TOTAL income—Add lines 3 through 10		6,610.14

DEDUCTIONS

12	Compensation of officers (Schedule E)		330,000.00
13	Salaries and wages (not deducted elsewhere)		160,450.91
14	Repairs (do not include capital expenditures)		3,894.93
15	Bad debts (Schedule F if reserve method is used)		2,720.00
16	Rents		37,261.69
17	Taxes (attach schedule) Schedule #3		10,442.30
18	Interest		3,243.37
19	Contributions (attach schedule—see instructions for limitation)		
20	Casualty or theft losses (attach schedule)		
21	Amortization (attach schedule) Schedule #3		135.84
22	Depreciation (Schedule G)		6,738.37
23	Depletion (attach schedule)		
24	Advertising		10,243.80
25	(a) Pension, profit-sharing, stock bonus, annuity plans (attach Form 2950)		
	(b) Other employee benefit plans (see instructions)		
26	Other deductions (attach schedule) Schedule #4		166,123.33
27	TOTAL deductions on lines 12 through 26		743,314.05
28	Taxable income before net operating loss deduction and special deductions (line 11 less line 27)		(736,703.91)
29	Less: (a) Net operating loss deduction (see instructions—attach schedule) (177,288.71)		(177,288.71)
	(b) Special deductions (Schedule I)		
30	Taxable income (line 28 less line 29)		(613,003.22)

TAX

31	TAL income tax (Schedule J)		NONE
32	Credits: (a) deposited—Form 7004 application for extension (attach copy)		
	(b) 7 estimated tax payments (include 1968 overpayment allowed as a credit)		
	(c) Credit from regulated investment companies (attach Form 2439)		
	(d) Credit for U.S. tax on nonhighway gas and lube oil (attach Form 4136)		
33	If tax (line 31) is larger than credits (line 32), the balance is TAX DUE. See instr. G for Tax Deposit System →		NONE
34	If tax (line 31) is less than credits (line 32) Enter the OVERPAYMENT here →		
35	Enter amount of line 34 you want: Credited to 1968 estimated tax Refunded		

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete. If prepared by a person other than taxpayer, his declaration is based on all information of which he has any knowledge.

CORPORATE SEAL

Date Signature of officer Title

MAY 8 1969. 1025 CONNECTICUT AVENUE, N. W. WASHINGTON, D. C. 20036

Date Individual or firm's signature of preparer Address

16-71253-1

E 497

Natelli's Exhibit P

Form 1120 (1967)

Schedule A—COST OF GOODS SOLD (See instructions)

1	Inventory at beginning of year	4,023.40
2	Merchandise bought for manufacture or sale	
3	Salaries and wages	
4	Other costs (attach schedule) Sched. #2	1,143,547.98
5	Total	1,145,313.38
6	Less inventory at end of year	—
7	Cost of goods sold—Enter on line 2, page 1	1,145,313.38

Method of inventory valuation FIFO

Schedule C—DIVIDENDS AND SPECIAL DEDUCTIONS (See instructions C)

1	Dividends from corporations subject to 85% deduction	
2	Certain preferred stock of public utilities	
3	Foreign corporations subject to 85% deduction	
4	Dividends from wholly owned foreign subsidiaries subject to 100% deduction (section 245(b))	
5	Other dividends from foreign corporations	
6	Income from controlled foreign corporations (attach Form 3646)	
7	Foreign dividend gross-up (section 78)	
8	Qualifying dividends from affiliated groups (section 243(b))	
9	Other	
10	Total—Enter here and on line 4, page 1	

Schedule E—COMPENSATION OF OFFICERS (See instruction 12)

1. Name, address, and social security number of officer	2. Title	3. Time devoted to business	Percent of corporation stock owned 4. Common	5. Preferred	6. Amount of compensation	7. Expense account allowances
Cortes W. Randell 1101 Crest Lane McLean, Virginia # 224-40-6354	Pres.	100%	44.4	NA	22,000.00	1,470.00
Total compensation of officers—Enter here and on line 12, page 1					22,000.00	

Schedule F—BAD DEBTS—RESERVE METHOD (See instruction 15)

1. Year	2. Trade notes and accounts receivable outstanding at end of year	3. Sales on account	Amount added to reserve 4. Current year's provision	5. Recoveries	6. Amount charged against reserve	7. Reserve for bad debts at end of year
1962						
1963						
1964						
1965						
1966						
1967	2,123,714.85	1,147,420.95	2,780.00	—	2,780.00	-0-

Schedule G—DEPRECIATION (See instructions for Schedule G)

Taxpayers using Revenue Procedures 62-21 and 65-13: Make no entry in column 2, enter the cost or other basis of assets held at end of year in column 3, and enter the accumulated depreciation at end of year in column 4.

1. Class and guideline class or description of property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed or allowable in prior years	5. Method of computing depreciation	6. Life or rate	7. Depreciation for this year
1 Total additional first-year depreciation (do not include in items below)						
Buildings	Various	65,343.56	339.07	S.L.	10	1,673.52
Furniture and fixtures	Various	20,643.41	1,050.03	S.L.	4	5,055.42
Transportation equipment						
Machinery and other equipment						
Other (specify) Leasehold improvements	1967-68	6,512.46		S.L.	Var.	945
2 Totals		92,799.43				6,23
3 Less amount of depreciation claimed in Schedule A and elsewhere on return						
4 Balance—Enter here and on line 22, page 1						6.

Schedule H—SUMMARY OF DEPRECIATION

	Straight line	Declining balance	Sum of the years-digits	Units of production	Additional first-year (section 179)	Other (specify)
1 Under Rev. Procs. 62-21 and 65-13	—					
2 Other	6,738.39					

* Taxpayer hereby elects the reserve method accounting for bad debts

E 498

Natelli's Exhibit P

Schedule J—TAX COMPUTATION

1 Taxable income (line 30, page 1) loss	(61,303.02)
2 Surtax exemption (line 1, $25,000, or amount apportioned under section 1561, whichever is lesser)	NONE
3 Line 1 less line 2	(61,303.02)
4 (a) 22 percent of line 1	
(b) 26 percent of line 3	NONE
(c) If multiple surtax exemption is elected under section 1562, enter 6 percent of line 2	
5 Income tax (line 4, or line 26 of separate Schedule D, whichever is lesser)	NONE
6 Foreign tax credit (attach Form 1118)	
7 Line 5 less line 6	NONE
8 Investment credit (attach Form 3468)	
9 Line 7 less line 8	NONE
10 Personal holding company tax (attach Schedule 1120 PH)	
11 Tax from recomputing prior year investment credit (attach computation)	
12 Total tax—Add lines 9, 10, and 11. Enter here and on line 31, page 1	NONE

H Date incorporated May 20, 1966

I (1) Did the corporation at the end of the taxable year own directly or indirectly 50 percent or more of the voting stock of a domestic corporation? Yes ☒ No ☐

(2) Did any corporation, individual, partnership, trust, or association at the end of the taxable year own directly or indirectly 50 percent or more of the corporation's voting stock? Yes ☐ No ☒ (For rules of attribution, see section 267(c).)

If the answer to (1) or (2) is "Yes," attach a schedule showing:

(a) name, address, and identifying number; and

(b) percentage owned.

If the answer to (1) above is "Yes," include the taxable income (or loss) from line 30, page 1, Form 1120 of such corporation for the taxable year ending with or within your taxable year.

J Did you have any contracts or subcontracts subject to the Renegotiation Act of 1951? Yes ☐ No ☒

If "Yes," enter the aggregate gross dollar amount billed during the year

K Amount of taxable income (or loss) from line 30, page 1, Form 1120 for 1964 N/A 1965 N/A 1966 (27,225.17)

L Did you claim a deduction for expenses connected with:

(1) A hunting lodge ☐, working ranch or farm ☐, fishing camp ☐, resort property ☐, pleasure boat or yacht ☐, or other similar facility ☐? (Other than where the operation of the facility was the principal business.) Yes ☐ No ☒

(2) The leasing, renting, or ownership of a hotel room or suite ☐, apartment ☐, or other dwelling ☐, which was used by customers or employees or members of their families? (Other than use by employees while in business travel status.) Yes ☐ No ☒

(3) The attendance of your employees' families at conventions or business meetings? Yes ☐ No ☒

(4) Vacations for employees or members of their families? (Other than amount reported on Form W-2.) Yes ☐ No ☒

M Refer to page 7 of Instructions and state the:

Principal business activity Marketing

Principal product or service Marketing of product or services of others to youth market

N Were you a member of a controlled group subject to the provisions of section 1561 Yes ☒ No ☐, or section 1562? Yes ☐ No ☒

If "Yes," check type of relationship:

(1) parent-subsidiary ☒

(2) brother-sister ☐

(3) combination of (1) and (2) ☐ (see section 1563)

O Were you liable for filing Forms 1096 and 1099 or 1037 for the calendar year 1967? Yes ☐ No ☒

If "Yes," where were they filed?

P Was there any substantial change in the manner of determining quantities, costs, or valuations between opening and closing inventory? Yes ☐ No

If "Yes," attach explanation.

Q Did you pay dividends during the taxable year which you elect to be partially or wholly nontaxable to shareholders? (See sections 301 and 316.) If this is a consolidated return, so state here for parent corporation and on Form 851, "Affiliations Schedule," for each subsidiary.

R Were you a U.S. shareholder of any controlled foreign corporation? Yes ☐ No ☒. (See sections 951 and 957.) If "Yes," attach Form 3646 for each such corporation.

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Natelli's Exhibit P

Form 1120 (1957)

ASSETS	(a) Amount	(b) Total	(c) Amount	(d) Total
1 Cash		3,179.12		98,662.41
2 Trade notes and accounts receivable	57,261.05		2,122,711.46	
(a) Less allowance for bad debts	-0-	57,261.05		2,122,711.46
3 Inventories		2,802.78		-
4 Gov't obligations: (a) U.S. and instrumentalities				
(b) State, subdivisions thereof, etc.				
5 Other current assets (attach schedule) Sch. #5		284,533.11		659,794.13
6 Loans to stockholders				
7 Mortgage and real estate loans				
8 Other investments (attach schedule) Sch. #5		20,000.00		11,803.26
9 Buildings and other fixed depreciable assets	23,369.20		93,799.43	
(a) Less accumulated depreciation	1,399.10	21,970.10	7,752.49	85,046.94
10 Depletable assets				
(a) Less accumulated depletion				
11 Land (net of any amortization)				
12 Intangible assets (amortizable only) org. costs	679.14		679.14	
(a) Less accumulated amortization	123.95	555.19	257.79	419.35
13 Other assets (attach schedule) Trademark				210,960.00
14 Total assets		391,911.21		3,221,412.93
LIABILITIES AND CAPITAL				
15 Accounts payable		267,261.43		260,754.34
16 Mtges., notes, bonds payable in less than 1 yr.		11,200.00		100,000.00
17 Other current liabilities (attach schedule) Sch. #5		59,816.52		1,315,263.14
18 Loans from stockholders				
19 Mtges., notes, bonds payable in 1 yr. or more				
20 Other liabilities (attach schedule)				
21 Capital stock (a) Preferred stock				
(b) Common stock	1,200.00	1,000.00	46,927.10	46,927.10
22 Paid-in or capital surplus (attach reconciliation)				1,319,001.65
23 Retained earnings—Appropriated (attach sch.)				
24 Retained earnings—Unappropriated		45,584.46		198,546.55
25 Less cost of treasury stock		( )		(18,083.35)
26 Total liabilities and capital		374,014.41		3,221,412.93

Schedule M-1—RECONCILIATION OF INCOME PER BOOKS WITH INCOME PER RETURN

1 Net income per books	198,412.09	7 Income recorded on books this year not included in this return (itemize)	
2 Federal income tax (deferred)	170,650.00	(a) Tax-exempt interest $	
3 Excess of capital losses over capital gains		Schedule #6	693,938.66
4 Taxable income not recorded on books this year (itemize)		8 Deductions in this tax return not charged against book income this year (itemize)	
		(a) Depreciation $	
5 Expenses recorded on books this year not deducted in this return (itemize)		(b) Depletion $	
(a) Depreciation $		Schedule #6	155,121.70
(b) Depletion $		9 Total of lines 7 and 8	849,060.40
Deferred DC Tax 20,112.00		10 Income (line 28, page 1)—line 6 less 9	(435,704.31)
Schedule #6 14,082.00	34,194.00		
6 Total of lines 1 through 5	403,256.09		

Schedule M-2—ANALYSIS OF UNAPPROPRIATED RETAINED EARNINGS PER BOOKS (line 24, page 4)

1 Balance at beginning of year	45,584.46	5 Distributions: (a) Cash	
2 Net income per books	198,412.09	(b) Stock	
3 Other increases (itemize)			
		6 Other decreases (itemize)	
		Schedule #6	45,350.00
		7 Total of lines 5 and 6	45,350.00
4 Total of lines 1, 2, and 3	243,996.55	8 Balance at end of year (line 4 less 7)	198,546.55

429-16-2613-1

E 500

Natelli's Exhibit P

Form 5[illegible]

U.S. Treasury Department
Internal Revenue Service

Computation of Investment Credit

TO BE ATTACHED TO YOUR TAX RETURN
For calendar year 1982 or other taxable year beginning September 1, 1982, ending August 31, 1983

1982
Schedule A

Name and address NATIONAL STUDENT MARKETING CORPORATION
1100 CONNECTICUT AVENUE, N.W.
WASHINGTON, D.C. 20036

[illegible] 52-0845863

1 Investment in new and used property including investment in suspension period property
NOTE: Include your share of investment in property by a partnership, estate, trust, small business corporation, or lessor.

Type of property	Line	(1) Life years	(2) Cost or basis	(3) Applicable percentage	(4) Investment (Column 2 x column 3)
NEW PROPERTY	(a)	4 or more but less than 6	5,075.20	33⅓	1,691.23
	(b)	6 or more but less than 8		66⅔	
	(c)	8 or more	59,042.97	100	59,042.97
USED PROPERTY (See instructions for dollar limitation)	(d)	4 or more but less than 6		33⅓	
	(e)	6 or more but less than 8		66⅔	
	(f)	8 or more		100	

2 Total investment—Add lines 1(a) through (f) 60,734.20

3 (a) Amount of investment on line 2 which is attributable to suspension period property . . . .

(b) Amount of exemption from suspension period property (cost of suspension period property in column 2, line 1, which is selected to be treated as qualified property—not to exceed $20,000 less any amount selected in prior year) . . . . . [ ]

(c) Enter in column 2 below the amount of investment on line 3(b) according to life years:

(1) Life years	(2) Cost or basis	(3) Applicable percentage	(4) (Column 2 x column 3)
4 or more but less than 6		33⅓	
6 or more but less than 8		66⅔	
8 or more		100	

(d) Total of column 4 . . . . . —

4 Line 3(c) less line 3(d) . . . . . —

5 Total qualified investment—Line 2 less line 4 . . . . . 60,734.20

6 Tentative investment credit—7% of line 5 (3% for public utility property) 4,251.40

7 Carryback and carryover of unused credit(s) (attach computation) Schedule A-1 . . . . . 696.83

8 TOTAL—Add lines 6 and 7 . . . . . 4,948.23

LIMITATION

9 (a) Individuals—Enter amount from line 12, page 1, Form 1040 . . . . .
(b) Estates and trusts—Enter amount from line 25 or 26, page 1, Form 1041 . . . . . NONE
(c) Corporations—Enter amount from line 7, Tax Computation Schedule, Form 1120 . . . . .

10 Individuals, estates and trusts: (a) Foreign tax credit . . . . . [ ]
(b) Retirement income credit . . . . . [ ]

11 Total—Add lines 10(a) and (b) . . . . . —

12 Line 9 less line 11 . . . . . NONE

(Married persons filing separately, affiliated groups, estates and trusts, see instruction 13)

13 (a) Enter amount on line 12 or $25,000, whichever is lesser . . . . . NONE

(b) If line 12 exceeds $25,000, multiply the excess by the applicable percentage determined in accordance with instruction 13. . . . . —

14 Total—Add lines 13(a) and (b) . . . . . NONE

15 Less 7% of line 4 (3% for public utility property) . . . . . —

16 Line 14 less line 15 . . . . . —

17 Investment credit—Enter amount on line 8 or line 16, whichever is lesser . . . . . NONE

SCHEDULE A

If any part of your investment in 1 above was made by a partnership, estate, trust, small business corporation, or lessor complete the following:

Name (Partnership, estate, trust, etc.)	Address	Property		
		New	Used	Life years
		$	$	

E 501

Natelli's Exhibit P

Schedule I-A

NAME National Student Marketing Corporation 52-0845863

ADDRESS 1100 Connecticut Avenue, N.W.
Washington, D.C. 20036

Taxable Year Ended August 31, 1968

Form 3468 - Computation of Investment Credit

Investment credit carryover at 8/31/67			731	88
less: recapture due to sale of item costing $1,500.00, depreciated over 4 years ($500.00 x 7%)			(35	00)
Adjusted 8/31/67 investment credit carryover			696	88

CYPRESS NO. 502

E 502

Natelli's Exhibit P

Schedule A

52-0845563

NAME National Student Marketing Corporation

ADDRESS 1100 Connecticut Avenue, N.W.
Washington, D.C. 20036

Taxable Year Ended August 31, 1968

Line 4 Cost of Sales/Operations - Schedule A		
Printing	210,924	88
Art and layout	13,794	32
Postage and shipping	158,265	62
Distribution	173,772	03
Commissions	294,542	30
Order processing	26,919	79
Product costs	41,026	59
Other	1,252	09
Professional services	6,812	14
Marketing overhead	78,078	39
Deferred marketing expenditures expensed per this return	138,921	78
	1,143,309	98

E 503

Natelli's Exhibit P

Schedule 3

52-0845863

NAME National Student Marketing Corporation

ADDRESS 1100 Connecticut Avenue, N.W.
Washington, D.C. 20036

Taxable Year Ended August 31, 1968

Taxes											
D.C. Tangible Personal Property tax										467	69
New York City rental tax										450	00
Payroll taxes										9,285	27
Other - taxes and licenses										239	34
										10,442	30
Amortization - Organization expense											
								Amortization Allowed or Allowable in Prior Years		Amortization For This Year	
				Cost							
Organization expense (Taxpayer elects to amortize organization expense incurred 9/1/66 over the sixty month period 9/1/66 - 8/31/71)				679	14			123	95	135	94

E 504

Natelli's Exhibit P

Schedule 4

52-0345863

NAME National Student Marketing Corporation

ADDRESS 1100 Connecticut Avenue, N.W.
Washington, D.C. 20036

Taxable Year Ended August 31, 1968

Other Deductions		
Returned checks	375	00
Automobile expense	782	56
Bank charges	1,398	98
Membership dues	1,207	50
Contract labor	250	40
Miscellaneous	9,232	31
Office supplies	12,996	88
Insurance	3,049	92
Postage and freight	9,851	20
Printing and stationery	7,111	27
Subscriptions and publications	2,179	24
Entertainment	7,533	97
Legal and accounting	29,013	09
Clerical services	2,727	55
Telephone and telegraph	42,022	69
Travel	34,081	03
Conventions	2,520	51
Machine rentals	5,276	27
Employee benefits	3,514	22
Employment fees	667	49
Professional services	28,176	84
General and administrative expenses billed to subsidiary	(22,145	70)
Deferred expenses - N.Y. office - expensed per this return	3,700	00
	186,123	22

CYPRESS NO. 864

E 505

Natelli's Exhibit P

52-0545853

NAME National Student Marketing Corporation

ADDRESS 1100 Connecticut Avenue, N.W.
Washington, D.C. 20036

Taxable Year Ended August 31, 1968

	8/31/67	8/31/68
Other Current Assets		
Employee advances	9,765 64	46,380 16
Receivable from wholly-owned subsidiary	6,623 20	178,323 17
Deferred marketing expenditures	266,914 93	405,896 61
Prepaid expenses	1,244 44	28,835 86
Deferred compensation	—	13,333 33
Deferred expenses - N.Y. office	—	3,700 00
Deposits	—	13,325 00
	284,523 11	689,794 13
Other Investments		
Investment in wholly-owned subsidiaries	20,000 00	11,509 35
Other Current Liabilities		
Deferred Federal Income taxes	31,000 00	217,169 00
Accrued salaries and commissions	6,400 00	6,367 42
Accrued D.C. Income taxes	1,600 00	1,600 00
Accrued liabilities on contracts in progress	—	1,018,303 00
Other accrued expenses	1,835 52	10,628 44
Payable to wholly-owned subsidiaries	—	9,195 78
Deferred income	19,125 00	—
	59,963 52	1,315,263 64

CYPRESS

E 506

Natelli's Exhibit P

Schedule L
52-0845863

NAME National Student Marketing Corporation

ADDRESS 1100 Connecticut Avenue, N.W.
Washington, D.C. 20036

Taxable Year Ended August 31, 1968

Reconciliation of Income Per Books with Income per Return		
Line 5		
Salary expense		34,075 00
Line 7		
ESTIMATED NET FUTURE INCOME FROM CONTRACTS		672547 00
Income from advance payments previously reported		11291 66
		683,838 66
Line 8		
Deferred marketing expenditures		138,921 78
Deferred expenses - N.Y. office		3,700 00
Deferred compensation 1/3 of Annual payment to R. Hoadley for consulting		3,333 33
Prepaid marketing expenditures		9,164 63
		155,121 74
Analysis of Unappropriated Retained Earnings Per Books		
Line 6		
Retroactive adjustment in connection with stock split		24,600 00
Retroactive adjustment in connection with acquisition of subsidiary		20,750 00
		45,350 00

CYPRESS NO. 804

E 507

Natelli's Exhibit P

Schedule 7

NAME National Student Marketing Corporation

52-0845863

ADDRESS 1100 Connecticut Avenue, N.W.
Washington, D.C. 20036

Taxable Year Ended August 31, 1968

Item I (1), page 3					
National Employment Services Institute, Inc. (69) 1100 Connecticut Avenue, N.W. Washington, D.C. 20036	52-0809249	100	90	25,984	96
Compujab, Inc. (69) 635 Madison Avenue New York, New York 10022	13-2612930	100	90	—	
New England Subscription Service, Inc. 132 Adams Street Newton, Mass. 02138	04-2370313	100	90	(16,897	32)
Shaffer Enterprises, Inc. 114 W. Gregory Boulevard Kansas City, Missouri 64114	43-0839920	100	90	74,921	85

CYPRESS NO. 502

E 508

Natelli's Exhibit P

Form 7004 (Rev. November 1967)

(U.S. Treasury Department, Internal Revenue Service)

APPLICATION OF A CORPORATION FOR AUTOMATIC EXTENSION OF TIME TO FILE U.S. INCOME TAX RETURN

(Under section 6081(a) of the Internal Revenue Code)

OTE: Prepare this form in duplicate. File the original with the Internal Revenue office with which you are required to file your income tax return. Attach the duplicate copy to your income tax return.

r taxable year beginning September 1, 1967, and ending August 31, 1968.

pplication is made for an automatic extension of 3 months for filing the completed return of the corporation named below.

Name of corporation	Employer identification Number
National Student Marketing Service, Inc.	52-0845263
Number and street	Check type of return to be filed:
1140 Connecticut Ave. N.W.	☒ Form 1120
City or town, State, and ZIP code	☐ Form 1120-F
Washington D.C. 20036	☐ Form 1120-L
	☐ Form 1120-M
	☐ Form 1120-S

. Does this application also cover subsidiaries to be included in a consolidated return? Yes ☐ No ☒

If "Yes," complete the following:

Name and Address of Each Member of the Affiliated Group	Employer Identification No.

! An amount not less than 50 percent of the tax tentatively determined to be due (line 2(c)) must be deposited on or before the original due date of the corporation's income tax return. See instructions for depositary method of payment.

(a) Tentative amount of tax for the taxable year after taking into account any— Foreign tax credit; Investment credit; Personal holding company tax; Tax from recomputing prior year investment credit; Credit from regulated investment companies; Credit for Federal tax on nonhighway gasoline and lubricating oil	NONE
(b) Less: Payments on declaration of estimated tax (include amount of preceding year's overpayment allowed as a credit)	NONE
(c) Balance due	NONE
(d) Amount required to be paid—not less than 50 percent of line 2(c). See instructions for depositary method of payment	NONE

SIGNATURE (See Instruction 8)

Under penalties of perjury, I declare that I have been authorized by the above-named corporation to make this application, hat to the best of my knowledge and belief the statements made herein are true and correct, and that I am: ☐ an officer of he corporation; ☐ an agent enrolled to practice before the Internal Revenue Service; ☐ an attorney in good standing of the ar of the highest court of ..... (Specify jurisdiction) or ☒ a certified public accountant duly qualified to practice in DISTRICT OF COLUMBIA (Specify jurisdiction)

(Signature) (Date)

A Copy of This Application Must Be Filed With the Corporation's Completed Return

Form 7004 (Rev. 11-67)

E 509

Natelli's Exhibit P

FILING FEDERAL TAX RETURNS

NAME AND ADDRESS

TO

EMPLOYER'S IDENTIFICATION OR SOCIAL SECURITY NUMBER

TYPE OF RETURN

- ☐ U.S. ESTATE TAX RETURN, FORM 706
- ☐ U.S. GIFT TAX RETURN, FORM 709
- ☒ ADDITIONAL EXTENSION FORM 1120

TAXABLE PERIOD

- ☐ CALENDAR YEAR
- ☒ FISCAL YEAR ENDING 1/31/59

DATE EXTENSION REQUESTED TO

MAY 15, 1959

SEE SCHEDULE 1

IT IS UNDERSTOOD AND AGREED THAT THE GRANTING OF THIS EXTENSION WILL NOT IN ANY WAY RELIEVE [illegible] FROM PENALTIES PROVIDED BY LAW FOR FAILURE TO FILE A TAX RETURN

SIGNATURE OF TAXPAYER OR AUTHORIZED REPRESENTATIVE (See Reverse)

DATE

2/11/59

DO NOT WRITE IN SPACE BELOW

ACTION TAKEN

- ☐ EXTENSION GRANTED
- ☐ REJECTED

SIGNATURE

DATE

REASONS FOR REJECTION

1. [illegible] signature of the taxpayer or his duly authorized agent.
2. [illegible] mailed on or before the date prescribed by law for filing the return.
3. [illegible] the extension of time.
4. [illegible] to pay is not grounds for granting of a formal extension of time [illegible] earliest possible date with a copy of this form attached thereto.
5. [illegible] of tax involved.
6. [illegible]

* IF [illegible] IT MUST BE ATTACHED TO THE FACE OF YOUR RETURN WHEN [illegible]

U.S. [illegible] SERVICE

FORM MAR-3592 (REV. 2-57)

E 510

NATELLI'S EXHIBIT S

LETTER FROM MR. NATELLI TO MR. PARKINSON (9/5/68)

September 5, 1968

Mr. M. Everett Parkinson
Partner
Arthur Andersen & Co.
815 Connecticut Avenue, N. W.
Washington, D. C. 20036

Dear Mr. Parkinson:

It was a pleasure to talk to you yesterday and I trust that we will have the opportunity to meet in the near future. As discussed with you over the telephone, could you please confirm to me that there is no professional reason why we should not accept appointment as accountants and auditors for National Student Marketing Corporation.

I would like to take this opportunity to thank you for making available to us the various files of working papers pertaining to your previous examinations of the subject company.

Very truly yours,

PEAT, MARWICK, MITCHELL & CO.

A. M. Natelli, Partner

AMN/kab

24

8084

E 511

NATELLI'S EXHIBIT T

LETTER FROM MR. PARKINSON TO MR. NATELLI (9/9/68)

ARTHUR ANDERSEN & Co.

815 Connecticut Avenue, N.W.
Washington, D.C. 20006

SEP 10 1968

September 9, 1968

Mr. A. M. Natelli, Partner
Peat, Marwick, Mitchell & Co.
1140 Connecticut Avenue, N. W.
Washington, D. C. 20036

Dear Mr. Natelli:

Confirming our recent telephone conversation and in response to your letter of September 5, we are not aware of any professional reason why you should not accept appointment as accountants and auditors for National Student Marketing Corporation.

File

We will also be very pleased to cooperate with you with respect to opening balances and historical details of continuing accounts which may be contained in our audit working papers covering the period when we were the Corporation's auditors.

I, too, look forward to the opportunity of meeting you in the near future.

Very truly yours,

ARTHUR ANDERSEN & CO.

By W. Everett Parkinson
M. Everett Parkinson

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E 512

NATELLI EXHIBIT U

REDACTED PAGE 2289 FROM U1 MARKED FOR IDENTIFICATION
(BINDER FROM PMM CONTAINING DATA OF 5/31/69 PROXY)

W. P. No.
ACCOUNTANT
DATE

Proofs - NSMC Files

PMM

4 C. Breslin - PMM Chicago

1 L. Otlisa - PMM Philadelphia

3 A. M. NATELLI - PMM Washington.

Interstate 5 D. Jeffers - at Interstate.

NSMC 1 J. Jones. - NY

B. Kuehl - Work.

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SCANSAROLI'S EXHIBIT E

DRAFT NOTES FROM FINANCE COMMITTEE MEETING (5/19/69)

DRAFT NOTES FROM:

FINANCE COMMITTEE MEETING
May 19, 1969

In attendance:

Cortes W. Randell (Acting Chairman)
James Joy
Roger Walther
Donald A. Fergusson (Acting Secretary)
Bernie Kurek
John Stalick

CORT — This meeting is well over a year overdue. Not like the article on Automatic Sprinkler - where they had this kind of a meeting when they had $220 million sales.

We want to present some semblance of order today. Success hasn't been hurt by being overdue; we've been lucky. Things should be planned well. Luck should stay out.

This committee must have lots of authority and power. We will make all decisions on go or no-go financing, but will stop short of go or no-go on acquisitions.

We will review Bernie's statement of how this committee should operate. We will have comments on Jim Joy's statement at the next meeting. We will pick a chairman who will be responsible in the future for all meetings. Minutes will be taken on all actions or decisions.

Meeting schedule will be decided. We will met lots of times in the next few weeks. All budgets will come thru here and then go back to individual departments for explanation.

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Scansaroli's Exhibit E

(Cort cont'd)

Roger Walther will be in charge of the budgets for Arthur Frommer and John Pirie and World Academy.

Don and Cort will meet on all the others.

(Jim Joy's statement was then read and mentioned as good material for an agenda.)

Cort — Scope and Authority

All is the key word in the statement.

Meeting schedule will depend on rate of growth.

I would like to have financial reports from now on, covering:

Cash on hand
Cash invested in CD's
Credit line - how much has been used?

We should allow 2-3 hours per meeting. Would like to meet every couple of weeks — perhaps next Monday. We can meet weekly until we get caught up. We will meet at 3:30 every Monday for the next several weeks.

Scansaroli's Exhibit E

EXECUTIVE ADMINISTRATION BUDGET

Total: $308,000

Legal fees: $187,000 (What can we do to lower that fee?)
Quarterly rate is $61,000!

Roger: How many General Partners on that tab?

Cort: Right now — none. This is supposed to be reduced billing time right now. Maybe Jim could say something to them. In 3 months time you have 60 working days=$1,000/day. For this amount we could have 3 people full time on our account. We might, after this acquisition, sit down and point out that NSM/$5 A Day (as a unit) could carry some weight. Could we do something about that billing?

Bernie: Could we add to our staff?

John: There are a lot of legal questions — White & Case can render an opinion; John cannot.

Cort: For accounting purposes, most of our legal work is acquisitions which can be capitalized. This figure can be lowered by approx. $170,000. Direct charge on the books is at 90% rate.

Don: Are Garnett and his secretary's salaries on this?

Bern: No, because Doug's time would have to be apportioned and not enough would be gained by all the paperwork.

PUBLIC RELATIONS BUDGET

Total: $45,000

Up until now has been $2,500, but usually Infoplan socks us with $2,500 in extras. New firm will be between $5-6,000 with small amount of extras. Bernie made an analysis review of Infoplan's work, September through latter part of January, into February--everything they had done. The total amount, after

allocating how much for various things individually would be -- 80-85% of the material was press releases for acquisitions. Again, we can capitalize this as a cost of acquisition.

FarleyManning is new pr firm.

Roger— Could this be done in-house?

Cort —First, you have to find the man.

If we can continue to defer all but $5,000, that means we are only expensing $5,000.

Bern — Analyzed everything Wilcox & Williams and Infoplan did item by item

Don If you take a guy like Garnett and his secretary, John Davies and Joel, etc., you could capitalize the whole department.

Cort — Youre probably talking $60,000 savings. The problem is, we have to get Peat, Marwick to go along on it. The accounting logic is there. Peat Marwick must agree to it. They're just not maneuverable right now.

Roger— I don't get the feeling that Peat, Marwick is viewing our account in an aggressive way. They could do more than just acknowledge a problem exists.

Jim I agree with Roger and Cort. At this point we just couldn't consider a major change.

Cort By next fall, after a decision is made on the year end, we could take a look at that (Peat, Marwick situation). We get 1/3 of what we want.

Bern— If we can get one thing (contracts) turned around, their view would be a little different.

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Scansaroli's Exhibit E

Cort —Program Revenue: $2.8 million

Cost: 1.2 million

Lock-in: 1.6 million income

Net Net is about $2 million income.

Bern— The figures are built up on the blocks all the way up the chart

Cort — $2 million income would offset $1.6...$307,000 profit before taxes the way it stands with the present budgeting system.

Bern — Fixed fees must come in before August 31 xxxxxxxx to contend. Everything we knock out today will reduce that $1.693.

Don — That does not include subsidiaries.

Bern — That's right — only parent budget.

Cort — Present annual profit of $1.3 million.

Parent budget was $800,000

Loss shows $1.2 million

Profits: $400,000 before taxes = $200,000 after tax earnings.

We must figure out how to improve that!

We must really go ahead and put pressure on Dick Thomas's area and also on acquisitions. We're $800,000 down for NSMC. We can look at acquisitions and then at Don Fergusson's area.

Jim — The key to our salvation lies in two areas:

Cutting expenses
Increasing sales

Cort — Based on certain acquisitions which we have made, we are ... In order to keep our image that we have to prove we can make it on our own. That we're not just a conglomerate.

2304

23306

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Scansaroli's Exhibit E

CORT

$45,000 PR fee

We're only expensing approx. $7,000 in reality. PR brings us about 1/3 of our multiple. Performance brings us the other 2/3.

Roger The activity by itself may be newsworthy. Perhaps handled better internally.

Cort I'm not turning down the idea that we should hire an in-house PR man in addition to the outside house.

I'd like that $900 investment lunch fee to go for club memberships.

JIM: Should be the Wall Street Club, or the Broadstreet Club.

Cort Both Jim and Roger should join clubs.

$308,000 with reductions = $99,000

Don What about expense for Annual Report?

Cort Should not be in for 8/31.

Don Where is Garnett's secretary?

Bernie -Budgeted into Cliff's budget.

Cort The possibility of Doug's salary being capitalized will be brought up at a later date with Peat, Marwick.

General Counsel — $40,000.

Budget seems reasonable (all)

His library ~~expenses~~ can be capitalized. Cut $2,000 off library expenses.

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Scansaroli's Exhibit E

DON

Al Hutton's == $146,000

$23,000 Production
41,000 Outside Services
5,000 during June, July & August should be cut to $500 as there isn't enough action during summer months (with exception of NESI)

May - $6,200 should be $750

April - $2,000

September - $1,500

Cut arbitrarily unless Don comes back next Monday and says that they must be higher because...

Cort Expenses must be allocated to proper department or program.

Can girls in mailroom take up slack during summer slump?

Travel and Entertainment (Hutton)

Don I'd like to make a general statement — "I think a 25% on all departmental expenses could be attributed to Corporate Affairs.

Roger Is there any check on travel expenses here?

Cort If they're within budget they can spend by themselves. Over budget they have to go through a lot of approval.

Bern We have it set up now with 26 departments — VP level has $5000 commitment level, $1,000 at base level. As long as they are within budget they can approve, other than that it must go thru Don and Cort.

Cort I would like to challenge $450 for Oct., Nov. Dec.

DON I want to find a good guy for that department. It should be two-deep.

Cort I want to pick a target as to what NSM will do August 31. We have to establish that we're now at $1.7 million loss. We're currently at $400,000 loss for the entire corporation.

Don Do we keep building and building or do we stop and take stock? The whole success of the right hand side of the chart depends on the delivery capability of our Operations Division. I'm looking long-term now, not August 31. The whole firm collapses the moment that Division collapses.

Jim I think there comes a time when you've hired a lot of people and then sit back and get caught up so that we can go from there.

Travel & Entertainment — $3,150
Cut to $350

Don Assistant to Hutton will be postponed until Fall.

Cort Scratch "other" across the board and cut him from $450 to $250.

Don I think the whole answer is to go through this as we're doing. Get sales thru Charnas, Thomas, Ganis, etc. I don't want to cut so far into here that we kill the momentum of the firm.

Cort Between now and August we must sell $10 million worth of progr.ms — running at 40% profit.

Don We're going to salary on AE's as of July 1.

Cort If contracts come in all salary would be wiped out. It would make a lot more sense to go to salary on September 1.

Don Until you see it on paper!

Cort Asst. for Al Hutton - $8,600 — unfortunately we could only save $4,800 between now and August.

Jim Yes, but $5,000 a few times adds up!

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Scansaroli's Exhibit E

Don Decision is Al doesn't hire an assistant until September.

Cort He can hire in August. Takes him a month to come on usually.

Client Transmittals. What's that?

Assistant -- take out $900. Leave $1,200 beginning in Sept.

Jim Do you need 2 coordinators?

Cort Customer service is Mary Jane Heath.

Customer data processing is Penny Poe.

Cort What's the story on the mailroom? $3,000, $4,200, $5,400.....

During June, July & August the mail takes one hour. Mary Jane could do that herself.

Bern 4 girls directly in the mailroom; one real good.

Cort Keep one good one; put the other 3 on Freshman Photo Directory and write them off this budget or sent them out to Mrs. Matthews.

Bern We have two billing machines. Someone will have to be trained on them and we'll need another girl this fall.

Cort Keep Meg but use her elsewhere for the summer.

Bern I'll get answers from Hutton on the budget.

Cort Sue Torchia under Rasmussen's budget -- lose receptionist and put Sue on that desk?

Don Rick's ploy is to bring someone in over Bob as a strong..

Bob is just not creative enough..he's got good political contacts.

Data Processing for June, July, August -- $1,500

Should be $500 instead.

Operation Match - $1,000 Should be $100

Cort

Don Fergusson's budget - Dept. 33

C0030

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Scansaroli's Exhibit E

Cort In September I will recommend that you and Rob get $20,000 instead of your present salary. We'll talk about it.

Cort Why do you need a typist? Marilyn could help you. Postpone it until September.

Travel & Entertainment -- no expenses

Moving - Major portion of expense is for Robin's family move down from Toronto. Make July expense $1,800 instead of $2,500.

Kyle Mitchell's budget.....

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SCANSAROLI'S EXHIBIT M

End

SERVING THE YOUTH MARKET

October 28, 1969

Peat, Marwick, Mitchell & Company
1025 Connecticut Avenue, N. W.
Washington, D. C.

In connection with your issuance of a letter to Interstate National Corporation and subsidiaries as required by the agreement and plan of reorganization between Interstate and NSMC, I confirm to you that as of May 31, 1969 to the best of my knowledge

Dear Sirs:

[redacted], neither the Company nor any of its subsidiaries has incurred any liabilities or obligations, direct or contingent, or suffered any loss or entered into any transaction which would have a substantially adverse effect upon the consolidated financial position, net assets or consolidated results of operations of the Company and its subsidiaries [redacted], except:

1. In adjusting the amortization of deferred costs at August 31, 1969, to eliminate therefrom all costs for programs substantially completed or which commenced twelve months or more prior, an adjustment of $500,000 was required. [redacted]

2. In August, 1969, Management wrote off receivables in the amount of $200,000. [redacted]

3. Acquisition costs in the amount of $84,000 for proposed acquisitions which the Company decided against were written off to general and administrative expenses.

Also, to the best of my knowledge, during the period from May 31, 1969, to October 28, 1969, there has not been any material adverse change in the consolidated financial position of National Student Marketing Corporation and its consolidated subsidiaries, or any material adverse change in results of operations of National Student Marketing Corporation and its consolidated subsidiaries as compared with the nine month period ended May 31, 1969 after giving retroactive effect at May 31, 1969 of the adjustments disclosed above.

Very truly yours,

National Student Marketing Corporation

Leonard Kurek VP Finance

John R. Stiles Controller

National Student Marketing Corporation

1100 Connecticut Avenue, N.W. • Washington, D.C. 20036 • Telephone 202 • 659-3700

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SCANSAROLI'S EXHIBIT P

nsmc MEMORANDUM

JAN 12 REC'D

FROM: Joe Scansaroli
TO: Bernie Kurek and John Stalick
DATE: January 12, 1970

I guess we accountants are lucky because our education and work experience has taught us that organization and proper planning results in efficient and smooth operations. This is why many successful companies, as well as other organizations, have accountants in their top management positions. I say this as a preface to emphasize the following comments on the thinking, organization and planning within NSMC.

I have gotten the impression that everyone in NSMC Corporate has only one thing on their mind - E.P.S. This is ridiculous for several reasons. It will not be long until we will have to settle for a yearly increase of $.5 to $.10 a share rather than an increase of $1.00. As of right now, we need $5,000,000 earnings before taxes to affect E.P.S. by $.20 and within a year it could be $10,000,000 for $.20. This means that our reports will not be meaningful unless we grow internally, even if it is only $.10. How do we grow internally? By proper organization and planning. This is why I say that except for a few individuals, our so-called executives should stay away from the concept of E.P.S.

So much for our thinking. What about organization? We change our organization every day because of our thinking and planning, which I will cover later. We must departmentalize this company and stick with what we do. We cannot organize a department and put someone at the head of it and then change it a week later. Or we cannot assign responsibilities to someone like a Group Vice President and change it daily to meet other people's demands. Why do we do this? Because too many people lack the knowledge and experience to see that a large organization cannot grow properly without planning.

Proper planning covers a lot of territory. We must plan now for the next three years. In the next three years, the following will probably happen:

1. Less emphasis will be put on large increases in E.P.S. and more on internal growth.

2. Many people will become wealthy and they will not want to stay with our company or subsidiaries.

3. Many employees will leave because their options will be exercised, or people who become wealthy will go onto new ventures and take some of the employees with them.

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Scansaroli's Exhibit P

How do we plan now to meet these possibilities:

1. The Group Vice Presidents should become thoroughly familiar with the companies, their operations, future expectations, employees, etc. They should become very much involved from an administrative viewpoint rather than stress earnings. Efficient operations will result in increased earnings.

2. What do we offer employees when they do not have options? Most companies have pension plans, profit sharing plans, bonus plans, hospitalization, etc. How can we (including our subsidiaries) compete with other companies? Employee turnover can cause havoc with daily operations and routines. If we were wise, we would plan for this now.

We are heading for a lot of trouble if we do not change our overall thinking, maintain proper organization and start planning. In my opinion, we have very few, if any, people who are capable of doing this. As a matter of fact, I am willing to say this to anyone in our organization, including our chief operating officer, who, in my opinion, could be doing a lot better job.

We better start strenghtening our subsidiary relationships and our employee relationships. We better tell our managers to quit playing politics and start managing. I think a good start would be to weed-out those who cannot manage and have experienced people who are interested in managing. We need people who want to become involved with our subsidiaries, who want to see them grow, who want to train personnel for the future, and who want to become Group Presidents. I say Group Presidents because we are going to have to offer some incentive. I think along these lines we should require all subsidiaries to show in their letterhead that they are a division of MSMC.

I fully realize that it is easy to say all this, but how do we get our so-called managers to realize the importance of proper organization and planning. I think, under the circumstances, that there is only one way - be a son-of-a-gun with no regard to how they feel. This is drastic, but what can we do otherwise?

The first thing I want to know, however, in writing signed by Cort and Roger, is their intentions as to where the finance department will be located. If it is going to be located in Washington, I believe we should expand it and have 90% of the department here. If they want it in New York, that is ok too, but let us know.

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Scansaroli's Exhibit P

Once we have decided this, we should then set some Company policies with regard to the functions and responsibilities of the finance department. There is a tremendous amount of work within the finance department. We have to write manuals, co-ordinate audits, file with the S.E.C., etc.

Other departments must be organized the same way. Group Vice Presidents should have manuals outlining their duties.

I could go on for another 50 pages, but I won't.

In conclusion, I want to say that I have everything to gain and nothing to lose by seeing this company operated properly. 90% of the employees of NSMC and subsidiaries are in the same position. The 10% that are not affected are the ones who are making the decisions and who either do not have the foresight to see what is happening or they don't care. I am very sincere about everything I have said. I am not saying it because I want to impress anyone. In fact, if I don't see some positive action along these lines, within the next couple of weeks, I will visit an employment agency and see if I can't work for a company who does have people who are looking toward the future. I say this not because I want to threaten anyone, but because I want to emphasize that I sincerely believe changes must be made for the good of the company.

J Scansaroli

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COURT'S EXHIBIT 1 FOR IDENTIFICATION

WALL STREET JOURNAL ARTICLE 10/29/74

Auditors in the Dock

Fraud Trial of Peat Marwick Attracts Anxious Attention of Other Accountants

By FREDERICK ANDREWS
Staff Reporter of THE WALL STREET JOURNAL

NEW YORK — One evening in August 1969, Cortes W. Randell, then the 33-year-old "boy wonder" president of National Student Marketing Corp., boarded his executive jet "Snoopy" for a fateful trip.

He was headed from his home in Washington to New York, where a proxy statement was going to press covering NSM's proposed acquisition of an insurance company, Interstate National Corp. Hastily summoned to make the trip with him aboard the $700,000 jet were Bernard J. Kurek, NSM's financial vice president, and the company's accountants.

With the legal and auditing hassles that normally accompany such merger preparations, plus some wrinkles that only a free-wheeling outfit like NSM could devise, it took the executives, auditors and lawyers almost three days of frantic activity to put the 112-page proxy statement to press.

Now, five years later, it is taking Mr. Kurek more than three days to unravel for the court the events of those hectic days and to help establish who was responsible for admittedly false statements in the 1969 proxy.

Mr. Kurek is the first witness in a trial that federal Judge Harold R. Tyler Jr. estimates may take three or four weeks—a trial that is being called one of the most significant in recent financial annals.

Prestigious Defendants

The significance stems largely from the prestige of the defendants, Peat, Marwick, Mitchell & Co., the nation's largest accounting firm, and two auditors, Anthony M. Natelli, a partner in the firm, and Joseph Scansaroli, who has since left the firm. Both men are 38 years old.

They are charged with criminal securities fraud in knowingly making false statements in the 1969 proxy material. Mr. Randell and Mr. Kurek, the two NSM executives mainly involved in the preparation of that material, have pleaded guilty to the same charge and await sentencing. It's still unknown whether the government will call Mr. Randell to testify against his former auditors. In any case, his guilty plea to this charge alone (he pleaded guilty to three other counts in the indictment) could mean up to two years in prison and a $10,000 fine.

If the auditors are convicted, of course, they face a similar fate—a prospect that boggles the minds of auditors everywhere.

The case is also mind-boggling for lawyers everywhere because the Securities and Exchange Commission has named two prominent law firms in a civil suit involving many of the same facts. The law firms, New York's White & Case and Chicago's Lord, Bissel & Brook, weren't indicted, however.

So the NSM matter has become a test case in the government's effort to enforce securities laws against auditors and lawyers. The current trial has taken on added significance since the government last March failed in its effort to convict three Arthur Andersen & Co. accountants of stock fraud involving the former Four Seasons Nursing Centers of America Inc.

"If we can't get a conviction here, we never will," says a Washington source referring to the trial of Peat Marwick.

As a trial opened last week, Franklin B. Velie, assistant U.S. attorney, told the jury, "This is a simple case." As he outlined it, the government charges that the two Peat Marwick auditors made a bad mistake (which isn't a crime) and then buried it (which is a crime). "A cover-up," Mr. Velie asserted.

The defense is equally straightforward. Whatever the two auditors did, they did from honest judgments during those hectic days in 1968-69. As for any "cover-up," that is an unfair word chosen to poison the jury against the defendants, according to Charles Stillman, the lawyer for Mr. Scansaroli.

The government's key witness in reconstructing the 1969 events apparently is Mr. Kurek, the former financial vice president. Last week, he began a low-key recitation of his recollections of National Student Marketing's jumbled financial affairs, from June 1968 when he joined the company through the 1969 proxy preparation and its aftermath.

Noncommittal Commitments

He glumly recalled the experience as one of continual frustration over getting Mr. Randell and NSM's young "account executives" to give him the reports he and the outside auditors needed. His testimony dealt with the nub of the government's case, certain "commitments" the company included in sales for the year ended Aug. 31, 1968, and the nine months ended May 31, 1969.

The "commitments" involved arrangements with large companies for NSM's 500 or so campus representatives to promote consumer products and services on the campus, largely through posters and other literature. Once the commitments were received from the big advertisers, the literature was prepared and sent to the campus representatives. But in 1968-69, some of the so-called commitments apparently were noncommittal.

According to the government, the 1969 proxy statement repeated the fiscal 1968 figures but hid the fact that by then about $1 million of "commitments" originally recorded for 1968 had been written off. Further, it's charged the proxy's nine-month figures for 1969 included a phony $820,000 "commitment" from Eastern Airlines, which suddenly materialized after Mr. Natelli challenged an equally false $1.2 million "commitment" from the Pontiac division of General Motors Corp.

"People who read those financial statements were cheated," Mr. Velie asserted at the trial. "The proxy statement gave no hint of what (the two auditors) knew—National Student Marketing was a losing proposition."

Although NSM was paid for its work only as the campus promotion was carried out, the company had Peat Marwick's blessing to follow an accounting method known as "percentage of completion" that allowed it credit for work in progress. The company counted revenue from a program as soon as it received a "commitment," on the theory that its main job was selling the idea, and that implementing the job was routine.

An Issue of Accounting

Court papers show that Touche Ross & Co., another big auditing firm, has concluded that National Student Marketing shouldn't have used this accounting method. Developed for long-term construction contracts, percentage-of-completion depends on an accurate measure of progress to date, good estimates of costs still to be incurred, and little risk of something going wrong.

By contrast, National Student Marketing was a novice company in an uncharted market, Touche Ross said in its report. Not only were its "commitments" cancelable, but

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Court's Exhibit 1 for Identification

also its accounting method "gave no consideration" to the actual work of carrying out the programs. In fact, Touche Ross found the part-time campus representatives were often unreliable, and there wasn't any assurance the work would get done.

The government isn't charging merely that the accounting method was dubious. Mr. Kurek testified further that Mr. Natelli allowed NSM to count "commitments" for which written assurances never existed. In October 1968, Mr. Kurek said, when he gave Mr. Randell preliminary figures showing a loss for the year ended the previous August, the company president asserted that its account executives had commitments the accounting department didn't know about.

A quick scramble assertedly led to the addition of $1.7 million in "commitments" unsupported by contracts, commitment letters or billings. Also, no costs were charged against the projects, Mr. Kurek said. Gross profit from these "unbilled receivables" made up $670,000 of NSM's $699,000 pretax profit for 1968, the government alleges.

Confirmation by Telephone

Peat Marwick wasn't permitted to confirm the "commitments" by writing to purported clients, a standard audit step. National Student Marketing objected that the step might spike the deals, which were customarily "informal." Instead, Mr. Kurek testified, Peat Marwick agreed to make its confirmations by listening in on telephone calls made by Mr. Randell.

By December 1968, there was still nothing on paper to back up the August 1968 "unbilled receivables." Mr. Kurek said Mr. Natelli then warned Mr. Randell that in its August 1969 audit, Peat Marwick would expect to confirm such "commitments" in writing and urged him to develop proper accounting systems.

Despite such warnings, not much was done, Mr. Kurek said. By spring 1969, about $1 million in "commitments" were written off, much of it retroactive to 1968. In June, he testified, Mr. Natelli warned him that the "unbilled receivables" were piling up to where "they either made or broke the company." A total of $3.3 million had been put on the books.

Mr. Natelli also allegedly said the Peat Marwick auditors were "very concerned." If anything went wrong, their careers and CPA certificates were at stake. About the same time, Mr. Scansaroli expressed similar worries, as well as second thoughts about the accounting, Mr. Kurek testified.

Mr. Randell, when confronted with a loss, apparently had a habit of springing new "commitments" on the accounting people.

Around 2 a.m. on Aug. 15, 1969, when the proxy statement was being prepared, Mr. Natelli precipitated a crisis by refusing to accept the Pontiac deal, although National Student Marketing had already reported the "commitment" in its six-month earnings. An hour or so later, when Mr. Randell was told of this, he came up with the Eastern "commitment," rousing Dennis M. Kelly, an NSM account executive, out of bed at 4 a.m. to speak with Mr. Kurek. Later that day, Mr. Kelly showed up with a commitment letter from Eastern.

(Mr. Randell, in pleading guilty to four counts, admitted altering a Pontiac letter to make it read as a commitment. He also admitted that Eastern was given the right, in writing, to cancel its "commitment," and the auditors weren't told about that. Mr. Kelly, who pleaded guilty to one stock-fraud count, said essentially the same thing.)

Last-Minute Changes

In a key charge at the current trial, the government contends that Mr. Natelli scratched out all references to write-offs in a draft of the proxy statement and then hid their impact in sales figures given for companies NSM acquired in 1969. The resulting $209,750 cut in gross profit was allegedly concealed by "netting" it against a $188,750 tax credit. The net reduction of $21,000 wasn't deemed "material," so no details were disclosed, the government charges.

In reply, John S. Martin Jr., Mr. Natelli's lawyer, told the jury that another Peat Marwick partner had reviewed and approved the accounting treatment at Mr. Natelli's request. It was "an honest decision," Mr. Martin said, as was Mr. Natelli's acceptance of the Eastern "commitment."

The defense lawyers didn't appear to shake Mr. Kurek's account, though they drew out observations favorable to their clients. Mr. Kurek said as far as he knew Mr. Scansaroli was doing "an honest job," and the witness never said anything to the contrary about Mr. Natelli. Mr. Kurek also conceded that NSM's top brass had complained about Peat Marwick's rigidity and indulged in "loose talk" about getting rid of the audit firm. And a 1969 footnote had accurately described "unbilled receivables," he said.

The defense lawyers pressed Mr. Kurek hardest to establish that National Student Marketing had adopted its accounting before Peat Marwick came on the scene, that a previous public accountant had approved it and that NSM's nine-month figures for 1968 had included "unbilled receivables." That amount Mr. Kurek first recalled as $25,000 or $50,000. After checking old records, he said $260,000 but insisted the higher sum was "still minor" compared with what the "unbilled receivables" later became.

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COURT'S EXHIBIT 2 FOR IDENTIFICATION

WALL STREET JOURNAL ARTICLE 11/4/74

National Student Marketing Trial Jolted By 2 Developments That Hurt U.S. Case

By FREDERICK ANDREWS
Staff Reporter of THE WALL STREET JOURNAL

NEW YORK—In the second week of the National Student Marketing trial, the government's prospects for convictions were badly shaken at least twice.

—Outside the courtroom, one juror repeatedly lamented that she didn't understand what was going on and felt incompetent to decide the case.

—The judge has three times refused to allow government witnesses to tell the jury how National Student Marketing's admittedly false $820,000 "commitment" from Eastern Airlines came to be written off in early 1970. The government says the testimony would show that the Eastern "commitment" obviously wasn't any good the previous fall when NSM's auditors accepted it.

On trial for criminal fraud are two accountants, Anthony M. Natelli and Joseph Scansaroli, who audited National Student Marketing for Peat, Marwick, Mitchell & Co., the nation's largest accounting firm. The two men, both 38 years old, are charged with knowingly making false statements in an NSM proxy statement issued in September 1969. If convicted, they face up to two years imprisonment, $10,000 in fines, and ruin of their careers. Mr. Natelli is a Peat Marwick partner. Mr. Scansaroli was a Peat Marwick audit supervisor until NSM hired him away in October 1969. He is no longer with NSM.

Reflected Honest Judgments

According to the government, the two Peat Marwick auditors made a bad mistake on their 1968 audit of National Student Marketing (which isn't a crime) and then buried it in the 1969 proxy statement (which is). They were afraid that disclosure would destroy their careers, the government says. The defense contends that whatever the two men did, it reflected honest judgments in trying circumstances. The defense also depicts Peat Marwick as tough on National Student Marketing.

The juror's apparent befuddlement was disclosed last Wednesday by Federal Judge Harold R. Tyler Jr. in a closed-door conference with government and defense lawyers. (The conference was included in the trial transcript.) Judge Tyler said that the juror, Elizabeth Gedra, made her remarks to the two court clerks the day before. Thus far, the juror remains on the panel (which includes three alternate jurors). A guilty verdict requires a unanimous vote, of course.

Elizabeth Gedra's confusion may be an omen that the government isn't getting its case across. The incident came after its mainstay witness, Bernard J. Kurek, NSM's former financial vice president, had already given most of his testimony.

Franklin B. Velie, an assistant U.S. attorney, has described the alleged fraud to the jury as "a simple case." It is, nevertheless, in an extremely complicated context. By normal standards, Mr. Velie's presentation would get high marks for clarity, but at times the lengthy, intricate testimony has been confusing even to observers experienced in accounting matters. The lay jurors have had to absorb concepts like "unbilled receivables," "accrued liabilities," "deferred taxes," "pooling of interest," "journal vouchers," and "comfort letters."

Clash Repeatedly

During the week, Mr. Velie and the defendants' lawyers, John Martin and Charles Stillman, clashed repeatedly over admitting testimony about writing off the Eastern "commitment." At one point, Judge Tyler rebuked Mr. Stillman for his "shrill" objections and Mr. Velie for addressing the judge "as if I were a country bumpkin or a juror. I am neither."

The Eastern "commitment" is the core of one key charge against the auditors. A prominent part of National Student Marketing's business was selling or promoting consumer products through its network of campus representatives. Under NSM's accounting, the company counted revenue from such "programs" as soon as it received a commitment from the would-be client, usually a nationally known company.

According to testimony, Mr. Natelli touched off a crisis in August 1969 as the NSM proxy was being rushed to press. He refused to accept a purported $1.2 million commitment from General Motors Corp.'s Pontiac division, even though NSM had already counted the transaction in its unaudited earnings for the nine months ended May 31, 1969. As a substitute, Cortes W. Randell, NSM's former president, then allegedly came up with the Eastern "commitment," supposedly entered into in May. About $520,000 of that "commitment" was included in the proxy's figures for the nine-month period. It was written off in February 1970.

Over defense objections, Judge Tyler accepted the government's contention that later events could show something about what Mr. Natelli knew, or should have known, about the Eastern "commitment" in August 1969. Judge Tyler insisted, however, on some clear link between Mr. Natelli and what happened later. The judge proceeded by first hearing testimony with the jury absent.

Seemed to Remember Little

Judge Tyler wouldn't admit the testimony of Robert J. O'Connor, formerly a junior auditor for Peat Marwick, because Mr. O'Connor seemed to remember little about the 1970 write-off. Similarly, Judge Tyler later wouldn't accept testimony about the write-off from Robert Ball, a former NSM staff accountant.

In between, Mr. Velie appeared to have cleared the hurdle by calling John Wharton, another former junior auditor for Peat Marwick. Mr. Wharton said the Eastern "commitment" was written off in February 1970 after a meeting with the head of NSM's highly touted network of campus representatives. That executive had told the auditors the campus network was "practically decimated (and) for all practical purposes, was going out of business."

On cross examination, however, Mr. Stillman destroyed Mr. Wharton as a witness by bringing out that the meeting he described hadn't taken place until April 1970, well after the Eastern write-off. Judge Tyler said Mr. Wharton's testimony "bordered on being incompetent" and sustained the defense objections.

The judge later characterized the Eastern "commitment" as "a real soggy bag of nothing as it turned out," but also said no one had testified that Mr. Natelli knew this, or should have known it, back in August.

During the week, the government also called as witnesses Douglas H. Oberlander and John T. Johnston, who also were formerly junior auditors with Peat Marwick, and John Buck, NSM's former controller. These witnesses generally corroborated various pieces of Mr. Kurek's lengthy testimony about what happened between NSM and the Peat Marwick auditors. Defense lawyers were able to bring out favorable comments, however. Mr. Oberlander and Mr. Johnston said, for example, that neither defendant had ever asked them to do anything improper or dishonest.

The government intends to wrap up its case this morning. The defense has said it anticipates three or four days' testimony on its behalf. Both Mr. Kurek and Mr. Randell have pleaded guilty to stock fraud concerning the NSM proxy. They await sentencing.

E 530

COURT'S EXHIBIT 3 FOR IDENTIFICATION

MEMO FROM JAMES BURTON 10/31/74

MEMORANDUM

October 31, 1974

TO: U. S. Attorney

FROM: John C. Burton

SUBJECT: Discussions with Fred Andrews of The Wall Street Journal

It appears likely that I was the source of the quotation in the October 29 Wall Street Journal article about the National Student Marketing trial attributed to "a Washington source." Although I do not recall using the precise words "If we can't get a conviction here, we never will" that was certainly consistent with the sense of a part of a conversation I had with Fred Andrews on October 11.

On October 9 I received a call from Mr. Andrews in which he indicated that he would be in Washington on the 11th and wondered if we could get together for a general background discussion of what we were doing in the accounting and disclosure areas. This was not an unusual request since such meetings have been held on several occasions in the past in the light of Mr. Andrews' responsibilities as accounting reporter for The Wall Street Journal. I suggested lunch on the 11th and, accordingly, he and Ken Bacon (of The Wall Street Journal's Washington staff) joined A. Clarence Sampson, Jr. (Associate Chief Accountant) and myself on the 11th. We met for about 1 1/2 hours and our conversation covered many accounting matters. The discussion of enforcement matters was not the major part of our luncheon, nor was it the focus of many questions.

At some point in the luncheon, the question of accountants' concern about criminal prosecution in connection with professional engagements was raised. I tried to explain the criteria used to determine what might be a criminal case and from there the conversation turned to the difficulty of communicating accounting and reporting matters to a lay jury. Since Mr. Andrews had read the transcripts of the Four Seasons trial, we discussed that briefly and I indicated my judgment that the National Student Marketing case was fundamentally much simpler. It was in this connection I said something like "if we can't convince a jury in this case, we will have to rethink the whole question of criminal references." I believe that Mr. Andrews' quote was consistent with this, although it is somewhat more dramatic.

At no point in our conversation were the facts of the case discussed. Mr. Andrews, who is a good reporter, has followed the case since its inception and he is aware of the public record.

Naturally, I am distressed that this quote appeared in The Journal, and in retrospect it is clear that I should not have mentioned the case in any way.

E 532

COURT'S EXHIBIT 4 FOR IDENTIFICATION

WALL STREET JOURNAL ARTICLE
(DATE MISSING FROM COURT'S EXHIBIT)

National Student Trial Defendants Request Indictment Dismissal

By a WALL STREET JOURNAL *Staff Reporter*

NEW YORK—The two accountant defendants in the National Student Marketing Corp. trial have asked that the indictment be dismissed because of a quotation printed in The Wall Street Journal.

The quotation was part of a lengthy story published Oct. 29. Discussing the trial's significance, it said: " 'If we can't get a conviction here, we never will,' says a Washington source. . . ."

Federal Judge Harold R. Tyler Jr. has privately told the government and defense lawyers that apparently the unidentified source was John C. Burton, chief accountant of the Securities and Exchange Commission. The judge has a memo on the subject from Mr. Burton.

Judge Tyler isn't expected to rule on the motion until the jury trial is over. Yesterday he apparently questioned the jurors about whether they had read the Journal article. The results of his polling aren't known, but the judge has several times cautioned the jurors against reading any newspaper article about the case.

On trial on stock-fraud charges are two certified public accountants, Anthony M. Natelli and Joseph Scansaroli, who audited National Student Marketing for Peat, Marwick, Mitchell & Co., the nation's largest accounting firm. They are charged with making false statements in a 1969 National Student proxy statement. The trial is concluding its third week.

With the jury absent, John S. Martin Jr., Mr. Natelli's lawyer, brought up the quotation last week, terming it highly prejudicial. Judge Tyler instructed the U.S. Attorney's office to find out whether the unidentified source was a government official. The judge said the remark appeared to violate Justice Department guidelines on what officials should say about pending trials.

Nothing further has been said about the matter in open court. Last Monday the defendants' lawyers emerged in high spirits from a recess conference with Judge Tyler. The stenographic transcript later showed that Judge Tyler had been given Mr. Burton's memo, but the transcript didn't include what the memo said. Judge Tyler gave the defendants' lawyers copies, but he later declined to make the memo public.

Yesterday the transcript became available for another conference at the close of the trial session the day before. It indicated that Judge Tyler said Mr. Burton "conceded" making the comment. It also disclosed the two defendants' motion to dimiss the indictment.

Judge Tyler had convened the gathering to ask whether the defendants wished him to poll the jurors without delay. The judge appparently did so yesterday morning. He and the jurors remained outside the courtroom for about half an hour past the scheduled starting time for the day's session.

In Washington, Mr. Burton declined comment on the developments.

E 533

COURT'S EXHIBIT 4A FOR IDENTIFICATION

WALL STREET JOURNAL ARTICLE
(DATE MISSING FROM COURT'S EXHIBIT)

National Student Defendant Concedes He Was 'Too Easily Satisfied' in Audit

By FREDERICK ANDREWS
Staff Reporter of THE WALL STREET JOURNAL

NEW YORK—In the third week of the National Student Marketing Corp. trial, the two auditor defendants repeatedly denied any wrongdoing.

One defendant, Joseph Scansaroli, the audit supervisor, conceded under cross-examination that he had been "far too easily satisfied" in his 1968 audit of National Student Marketing. But Mr. Scansaroli protested that the government was "taking things out of context" and relying on hindsight to build a pattern of wrongdoing.

Mr. Scansaroli and Anthony M. Natelli, the audit partner, are on trial for stock fraud involving a 1969 proxy statement issued by National Student Marketing. The two men audited the company for Peat, Marwick, Mitchell & Co., the nation's largest accounting firm. Mr. Natelli is partner-in-charge of Peat Marwick's Washington, D.C., office. Mr. Scansaroli is no longer with Peat Marwick.

Mr. Scansaroli underwent direct and cross-examination last Wednesday and Thursday. Mr. Natelli began to testify Friday and is expected to continue today. Lawyers in the case plan to begin their summations tomorrow.

Feared for Licenses

According to the government, the two Peat Marwick auditors made a bad mistake in their 1968 audit of National Student Marketing and then buried that mistake in the 1969 proxy statement, rather than disclosing it. The two auditors feared for their licenses as certified public accountants, the government contends. In that regard, its case depends on the word of Bernard J. Kurek, NSM's former financial vice president, who has pleaded guilty to the stock-fraud count.

Mr. Scansaroli flatly denied ever telling Mr. Kurek or anyone that he was concerned about his CPA certificate. In addition, Mr. Natelli said he didn't recall any talk with Mr. Kurek that could have led to an important memo. In the memo, Mr. Kurek quoted Mr. Natelli as saying the Peat Marwick auditors were concerned about NSM's accounting and worried about their CPA certificates.

The government contends the proxy statement failed to make two important disclosures, both involving "unbilled accounts receivable." This was the label given to a category of NSM's business that began to build up in 1968, the first year Peat Marwick audited the company.

National Student Marketing's most prominent activity was selling or promoting nationally known consumer products through a network of campus representatives. Originally NSM was paid according to how many student inquiries its promotional pieces stimulated. In 1968, however, it undertook "fixed-fee" work, which meant devising promotional campaigns for a flat sum. Under the terms, NSM wasn't paid until a client company accepted its proposals and the campaign was carried out, using the campus network.

A Time Lag Existed

With Peat Marwick's approval, National Student Marketing counted revenue from "fixed-fee" contracts as soon as the company received a client's go-ahead. Mr. Natelli testified that he permitted this because a time lag existed between getting a client commitment and actually signing a contract and carrying out the program. Mr. Natelli concluded that NSM had done the bulk of its work when the client accepted the promotional plan.

Without any contracts signed, these sums allegedly due were dubbed "unbilled receivables." The precise revenue and gross profit recorded from such a "commitment" depended on its "percentage of completion," an estimate of how far along NSM had progressed on the job.

According to the government, Peat Marwick allowed NSM to count $1.7 million in "unbilled receivables" for the year ended Aug. 30, 1968, for which no written client commitment of any sort existed. By the following August, the government charges, about $1 million had been written off as worthless. Instead of disclosing this, the proxy statement's restated figures for 1968 concealed the write-off by understating the 1968 sales of companies NSM had just acquired, it is charged. The corresponding $188,750 drop in profit was hidden by netting it against a suddenly discovered tax-loss carry-forward of exactly the same amount, the government says.

In testifying, Mr. Natelli defended his decision to accept the $1.7 million. The Peat Marwick auditors had to "deal with the situation as it existed," he said. NSM was growing at such a pace that proper records were "almost forgotten," Mr. Scansaroli wrote in a 1968 memo. In addition, Cortes W. Randell, then NSM's president, urged the auditors not to approach NSM clients for written assurances that the "commitments" existed. The clients were too touchy; things were too "touch and go," Mr. Scansaroli has testified. (Mr. Randell has pleaded guilty to four counts of stock fraud.)

Mr. Natelli said he agreed to talk with the client companies by telephone, but insisted that by the August 1969 audit, written confirmations would be essential. In the spring of 1969, he recalled, he became "extremely concerned" when NSM included in its unaudited six-month earnings a $1.2 million "commitment" from General Motors Corp.'s Pontiac division. Mr. Natelli didn't consider the "commitment" properly documented.

Mr. Natelli said this led him to press for a meeting with Mr. Randell and Mr. Kurek to warn against their following "some policy they knew doggone well I didn't agree with." By that time, Mr. Natelli said he had already clashed with the company twice over accounting policies for two subsidiaries. Upon the third encounter, Mr. Kurek said Mr. Natelli seemed unfair, the auditor testified. "I told him if he didn't like it he could sure get some other auditing firm in there," he added.

Mr. Natelli's testimony was poised and articulate, though he has yet to be cross-examined. Mr. Scansaroli, a less-polished figure, lost his aplomb several times under questioning by Franklin B. Velie, an assistant U.S. attorney.

Mr. Velie repeatedly hoisted Mr. Scansaroli on his own petard—his claim that he had done "everything possible" in the 1968 audit. Question by question, Mr. Scansaroli then conceded that for his telephone confirmations, he had simply accepted a list of client names and numbers from NSM; that at least once he had unwittingly "confirmed" a commitment by talking to NSM's printer; that he hadn't made any effort to check NSM's estimates of work in progress, and that he based an Aug. 30 commitment for $138,000 on a letter written in October that didn't specify any sum and in fact contained a money-back guarantee by NSM.

Charles Stillman, Mr. Scansaroli's lawyer, redeemed his client somewhat by reading a memo the auditor had written in January 1970 after leaving Peat Marwick for a job as NSM's assistant controller. Addressed to Mr. Kurek, his new boss, Mr. Scansaroli's memo blistered the company's "so-called executives" for their "ridiculous" preoccupation with per-share earnings. He included Mr. Randell in the criticism and threatened to quit if NSM didn't pay heed to better financial records and [illegible]ing.

E 534

COURT'S EXHIBIT 5 FOR IDENTIFICATION

JURY NOTE NO. 1

YOUR HONOR:

COULD WE POSSIBLY HAVE IN WRITING THE PORTION OF YOUR CHARGE THAT PERTAINS TO "MATERIAL AND FALSE" STATEMENTS AND "KNOWINGLY AND WILLINGLY!"

E 535

COURT'S EXHIBIT 6 FOR IDENTIFICATION

JURY NOTE NO. 2

Most of us recall that the testimony agrees that Natelli decided to allow Eastern on the morning of the 15th at Pon Dych press, that the figures for Pontiac were left in ronly the name was changed. One of us recalls that testimony indicated Natelli didn't decide until days later in Washington, that the figures were changed as a result, and the figures were finally printed after Natelli returned to Washington, not on the 15th.

Could we hear just enough pertinent testimony about Eastern to clear this up?

E 536

COURT'S EXHIBIT 7 FOR IDENTIFICATION

LETTER TO JUROR HAJEK'S EMPLOYER 11/13/74

November 13, 1974

Consolidated Edison Company
708 First Avenue
New York, New York
Attn: Mr. Dyre,
Superintendent

RE: United States v. Randell
et al.
Juror Charles Hajek

Dear Sir:

At the request of Mr. Hajek, this court is writing to advise that he has been involved for a number of weeks in the above-captioned trial. However, as the trial judge, I am happy to report that the case is coming to a conclusion this week. May I assure you that Mr. Hajek's jury duty has been required by law and constitutes a significant public service.

Very truly yours,

Harold R. Tyler, Jr.

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COURT'S EXHIBIT 8 FOR IDENTIFICATION

JURY'S NOTE NO. 3

YOUR HONOR:
WE CANNOT
AGREE.

E 538

COURT'S EXHIBIT 9 FOR IDENTIFICATION

JURY'S NOTE NO. 4

WE HAVE REACHED
A VERDICT ON
EACH DEFENDANT.

Due and timely service of ONE copies
of the within EXHIBIT VOLUME is hereby
admitted this 3rd/4th day of APRIL 1975

.....TBVehe AUSA.....
Attorney for APPELLEE